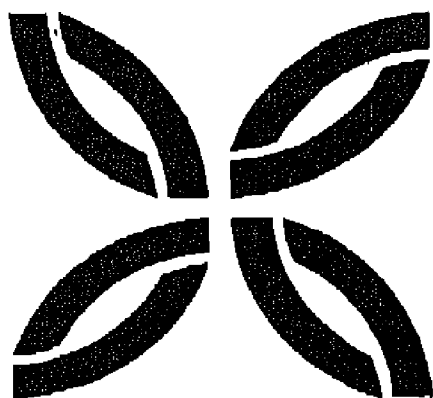
भारतीय आधुनिक शिक्षा राष्ट्रीय शैक्षिक अनुसधान और प्रशिक्षण परिषद् की एक त्रैमासिक पत्रिका है। इस पत्रिका का मुख्य उद्देश्य है शिक्षको, शिक्षक-प्रशिक्षकों, शैक्षिक प्रशासकों तथा शोधकर्ताओ को एक मंच प्रदान करना, शिक्षा के विभिन्न आयामो जैसे शिक्षादर्शन, शिक्षा मनोविज्ञान, शिक्षा की समकालीन समस्याएं, पाठ्यक्रम एव प्रविधि सवधी नवीन विकास, अतर्राष्ट्रीय स्तर पर शिक्षा का स्वरूप, विभिन्न राज्यो में शिक्षा की स्थिति आदि पर मौलिक तथा आलोचनात्मक चिंतन को प्रोत्साहित करना और शिक्षा के सुधार और विकास को बढ़ावा देना। लेखको द्वारा व्यक्त किए गए विचार उनके अपने हैं। अत' ये किसी भी प्रकार परिषद् की नीतियो को प्रस्तुत नही करते इसलिए इस सबध मे परिषद् का कोई उत्तरदायित्व नही है।

मूल्य एक प्रति · 8.50 रुपए वार्षिक : 34.00 रुपए

भारतीय आधुनिक शिक्षा

वर्ष 23 अंक 3 जनवरी 2005

इस अंक में

राष्ट्रीय शैक्षिक अनुसंधान और
प्रशिक्षण परिषद् की ओर
से आप सभी को
नव वर्ष की
शुभकामनाएं!

□ कृष्ण कुमार
निदेशक

सामान्य व विकलांग विद्यार्थियों की समेकित शिक्षा के प्रति अभिवृत्ति

❑ सरिता गर्ग

यदि सामान्य व विकलांग बच्चों में संबंध सकारात्मक है तो विकलांग बच्चों के सामाजिक व भावनात्मक गुणों का विकास होता है और यदि संबंध नकारात्मक है तो 'अन्य सब दशाओं के रहते हुए' समेकित शिक्षा विकलांगों की शिक्षा का एक सुनहरा सपना बन कर रह जाएगी। अतः सामान्य विद्यालय में अध्ययन करने वाले सामान्य विद्यार्थी व विकलांग विद्यार्थी की सकारात्मक अभिवृत्ति तथा समुचित दशाओं की उपस्थिति विकलांग बच्चों के संपूर्ण विकास का अस्त्र हो सकती है।

परिचय

शिक्षा मानव की समस्त स्वाभाविक शक्तियो का पूर्ण प्रगतिशील विकास है, अतः शिक्षार्जन करने वाला सामान्य बालक हो या विकलांग, उनको शिक्षा प्राप्त करने का समान अवसर प्राप्त होना न्यायसगत है।

भारतीय संविधान के अनुच्छेद 45 (नीति निर्देशक तत्व) में प्रावधान किया गया है कि 6 से 14 वर्ष के सभी बच्चो की अनिवार्य व निशुल्क शिक्षा की व्यवस्था की जाए। स्वतन्त्रता प्राप्ति के पश्चात् इस उद्देश्य की प्राप्ति के प्रयास चल रहे है, परन्तु आज प्राथमिक शिक्षा के सर्वव्यापीकरण के लक्ष्य की प्राप्ति ही आशिक रूप से हो पाई है। इसके लिए अनेक कारण उत्तरदायी है, जिनमें एक बहुत ही महवपूर्ण कारण है, विकलांग बालको की शिक्षा के प्रति सकारात्मक दृष्टिकोण का अभाव।

विश्व जनसंख्या का एक बहुत बडा भाग विकलांग व्यक्तियों का है। विश्व में कुल विकलागो का आठवां हिस्सा भारत मे है।

इस प्रकार विकलांग वर्ग का प्रभाव आर्थिक व सामाजिक रूप से समाज पर पड़ता है। विकलाग वर्ग भी समाज का अभिन्न वर्ग है। अत· आवश्यकता इस बात की है कि विकलाग बच्चों को उन्नति के पर्याप्त अवसर दिए जाएं ताकि समाज व राष्ट्र उन्नति में उनका भी सहयोग प्राप्त हो सके।

कोठरी आयोग (1964-66) के अनुसार विकलांग बालक को दी जाने वाली शिक्षा का प्रमुख कार्य है– उसे उस सामाजिक और सांस्कृतिक वातावरण से सामंजस्य करने के लिए तैयार करना, जिसका निर्माण सामान्य व्यक्ति की आवश्यकताओ को पूर्ण करने के लिए हुआ है। अतः यह आवश्यक है कि विकलांग बालकों की शिक्षा सामान्य शिक्षा प्रणाली का अभिन्न अंग है।

किसी उद्देश्य की पूर्ति के पूरक कार्यक्रम के रूप में सन् 1975 में समाज कल्याण विभाग, भारत सरकार ने समेकित शिक्षा योजना (आई.ई.डी) प्रारम्भ की। इस योजना के अतर्गत सामान्य विद्यालय में पढने वाले विकलांग छात्रों को छात्रवृत्ति व अतिरिक्त सुविधा दी गई तथा विशिष्ट शिक्षा के लिए अतिरिक्त भत्ते का प्रावधान किया गया।

यदि विकलाग बच्चे सामान्य समुदाय के साथ रहते हैं तो विशिष्ट विद्यालय में शिक्षा के लिए उन्हें पृथक नहीं करना चाहिए, बल्कि सामान्य बच्चों के साथ सामान्य विद्यालय में पढ़ाया जाना चाहिए।

राष्ट्रीय शिक्षा नीति (1986) मे समानता के लिए

शिक्षा नामक अध्याय मे विकलाग बच्चों और सामान्य बच्चों की शिक्षा के एकीकरण की आवश्यकता पर बल दिया गया है।

समेकित शिक्षा की धारणा का उदय

विकलाग बच्चो के लिए समेकित शिक्षा की धारणा का उदय समानता के सिद्धात में निहित है तथा इसका विस्तार विशिष्ट विद्यालयो के विरुद्ध तर्कपूर्ण आरोपो के साथ हुआ। विशिष्ट विद्यालयो के पक्ष मे विचार करने के पूर्व यह सोचना होगा कि क्या?

- ☐ सभी विकलाग बच्चों को विशिष्ट विद्यालय मे शिक्षा दी जा सकती है?
- ☐ क्या देश के हर क्षेत्र में विशिष्ट विद्यालय खोले जा सकते हैं?
- ☐ क्या देश के हर क्षेत्र मे विशिष्ट विद्यालय पर आने वाले व्यय को वहन करने की क्षमता है?
- ☐ क्या विशिष्ट विकलाग विद्यार्थियो को प्रवेश देकर हम उन्हे समाज से पृथक करके पृथकता का वातावरण निर्मित नही करेंगे?
- ☐ क्या विशिष्ट महाविद्यालय मे शिक्षा लिए हुए विद्यार्थी समाज द्वारा दी जाने वाली चुनौतियों का सामना करने में समर्थ होंगे?
- ☐ क्या हमारा समाज उनकी योग्यताओं के लाभ से वंचित नहीं रह जाएगा?
- ☐ क्या हम इन बच्चों मे— "अन्य सबसे अलग" होने की हीन-भावना का जन्म नहीं होने देंगे?

उपरोक्त प्रश्नो का जवाब है— "विकलांग बच्चो की शिक्षा समेकित हो जो आर्थिक, सामाजिक व सांस्कृतिक परिस्थितियों के अनुकूल है। किन्तु समेकित शिक्षा की व्यवस्था विकलागता के स्वरूप व आवश्यकता के अनुसार निश्चित की जाएगी। इसका तात्पर्य यह नहीं है कि अति गम्भीर बच्चे भी सामान्य बच्चों के साथ समेकित शिक्षा के अन्तर्गत शिक्षा प्राप्त करेगे।

सामान्य विद्यालय में अध्ययन करके विकलांग बच्चे को अपनी विकलागता के कारण भविष्य में समाज द्वारा दी जाने वाली चुनौतियो का सामना करने के लिए तैयार होना है। समेकित शिक्षा द्वारा विकलांग बच्चे शिक्षा प्राप्त कर जीवन निर्वाह योग्य बनकर समाज पर बोझ नहीं रहते जिससे सामाजिक समस्या भी समाप्त हो जाती है।

सामान्य विद्यालय मे अध्ययन करने से विकलाग बच्चे मां-बाप के साथ रहते है, जिससे उनका भावनात्मक विकास सामान्य बच्चों के समान होता है।

इस प्रकार सामान्य विद्यालय मे अध्ययन करने से विकलाग विद्यार्थियों के सामाजिक, भावनात्मक, ज्ञानात्मक अर्थात् स्वाभाविक शक्तियो का पूर्ण विकास होता है।

फिश (1989) के अनुसार, "यह पूर्ण रूप से सम्भव है कि सामान्य बच्चो का विकलाग बच्चो के साथ मानसिक संबंध उनके सकारात्मक सबधो के साथ सकारात्मक अभिवृत्ति को भी विकसित करेगा।"

यदि सामान्य व विकलाग बच्चों में संबंध सकारात्मक है तो विकलाग बच्चों के सामाजिक, भावनात्मक, गुणों का विकास होता है, यदि नकारात्मक संबंध है तो 'अन्य सब दशाओ के रहते हुए' समेकित शिक्षा विकलागो की शिक्षा का एक सुनहरा सपना बनकर रह जाएगी।

अत. सामान्य विद्यालय मे अध्ययन करने वाले सामान्य विद्यार्थी व विकलांग विद्यार्थी की सकारात्मक अभिवृत्ति तथा समुचित दशाओ की उपस्थिति विकलांग बच्चो के सपूर्ण विकास का अस्त्र हो सकती है।

शोध का उद्देश्य

इस शोध का प्रमुख उद्देश्य सामान्य व विकलाग विद्यार्थियो की समेकित शिक्षा के प्रति अभिवृत्ति ज्ञात करना है।

शोध कार्य के निम्नलिखित विशिष्ट उद्देश्य हैं—

- ☐ सामान्य विद्यार्थियों की विकलागो की समेकित शिक्षा के प्रति अभिवृत्ति मापना।
- ☐ विकलाग विद्यार्थियो की समेकित शिक्षा के प्रति अभिवृत्ति मापना।
- ☐ सामान्य छात्रों का विकलागो की समेकित शिक्षा के प्रति अभिवृत्ति मापना।

- विकलांग छात्रो की समेकित शिक्षा के प्रति अभिवृत्ति मापना।
- सामान्य छात्राओ की विकलांगो की समेकित शिक्षा के प्रति अभिवृत्ति मापना।
- विकलाग छात्राओं की समेकित शिक्षा के प्रति अभिवृत्ति मापना।
- निम्न आयु-वर्ग (11 से 13 वर्ष) के विद्यार्थियो की समेकित शिक्षा के प्रति अभिवृत्ति मापना।
- निम्न आयु-वर्ग (11 से 13 वर्ष) के विद्यार्थियों के साथ समेकित शिक्षा के प्रति अभिवृत्ति का तुलनात्मक मापन।

शोध परिकल्पनाएं

शोध की निम्नलिखित परिकल्पनाए निर्धारित की गई हैं—

- सामान्य व विकलांग विद्यार्थियो की समेकित शिक्षा के प्रति अभिवृत्ति मे कोई सार्थक अन्तर नहीं है।
- सामान्य व विकलाग छात्र व छात्राओं की समेकित शिक्षा के प्रति अभिवृत्ति मे कोई सार्थक अन्तर नहीं है।
- निम्न आयु-वर्ग (11 से 13 वर्ष) व उच्च आयु-वर्ग (14 से 16 वर्ष) के विद्यार्थियों की समेकित शिक्षा के प्रति अभिवृत्ति मे कोई सार्थक अन्तर नही है।

शोध का महत्व

यह कहना अतिश्योक्ति नही है कि आज पर्यन्त समाज मे विकलाग बच्चो की शिक्षा व उनके व्यक्तित्व के विकास के प्रति सर्वाधिक उपेक्षित दृष्टिकोण रहा है। आज भी विकलांग बच्चो की शिक्षा का कार्य उनका संवैधानिक नैतिक अधिकार नही, वरन् कल्याणकारी पुण्य कमाने का कार्य माना जाता है। समुचित शिक्षा के द्वारा विकलागों की निहित क्षमता का विकास कर उन्हे स्वावलंबी बनाकर समाज की प्रगति मे बराबर भागीदार बनाया जा सकता है।

इस शोध द्वारा विकलागों के प्रति नकारात्मक अभिवृत्ति प्रकट होने पर उनकी नकारात्मकता के कारण भी सामने आएंगे जिनके निराकरण के सुझाव दिए जाएंगे, जिससे उन्हे समाज के सामान्य सदस्य होने का अधिकार प्राप्त होगा।

विशिष्ट शब्दावली

शोध संबध में प्रयुक्त विशिष्ट शब्दावली की परिभाषा—

अभिवृत्ति

फिशर (1977) के अनुसार ''सामाजिक मनोविज्ञान में अभिवृत्ति सप्रत्यय की जितनी परिभाषाए हैं, शायद ही अन्य किसी सप्रत्यय की हो।

''अभिवृत्ति किसी मनौवैज्ञानिक उद्देश्य के प्रति अति तीव्र सकारात्मक या नकारात्मक प्रयास है।"

विकलागता

विकलागता का अर्थ उस असामान्य अवस्था से है, जो प्रभावित बालक को औसत बालक से अलग करती है। यह अन्तर शारीरिक आकृति, बौद्धिक स्तर, सामाजिक समायोजन, व्यवहार व भावात्मक या सवेदात्मक किसी भी रूप मे हो सकती है।

समेकित शिक्षा

समेकित शिक्षा से आशय उस शिक्षा व्यवस्था से है जिसके अन्तर्गत सामान्य विद्यालय मे, सामान्य पाठ्यक्रम को, सामान्य व विकलाग विद्यार्थी साथ-साथ अध्ययन करते हैं।

शोध समस्या प्रविधि और प्रक्रिया

प्रस्तुत शोध मे चार विद्यालयों मे अध्ययन करने वाले विद्यार्थी विकलाग थे। अध्ययन नगर के उन्ही विद्यालयो तक रखा गया, जिनमें विकलाग बच्चे अध्ययन कर रहे थे।

- इस शोध के अन्तर्गत चार विद्यालयो के 30 विद्यार्थियों को चयनित किया गया जिसमे 15 सामान्य तथा 15 विकलांग विद्यार्थी थे, जिनमे 20

छात्र व 10 छात्राये थी।

- न्यादर्श के रूप में कक्षा 6 से 10 तक के विद्यार्थियो को चुना गया।
- विद्यार्थी विभिन्न शैक्षिक स्तर के थे।
- विद्यार्थियों का चयन शासकीय विद्यालयों से किया गया।

प्रस्तुत शोध में न्यादर्श चयन मे विकलांग विद्यार्थियों का चयन उद्देश्यानुसार चयन विधि से किया गया।

समस्या के चर

शोध के मुख्य स्वतंत्र चर–

- सामान्य विद्यार्थी
- विकलांग विद्यार्थी
- लिग
  - बालक
  - बालिका
- आयु-वर्ग
  - निम्न आयु-वर्ग (11 से 13 वर्ष)
  - उच्च आयु-वर्ग (14 से 16 वर्ष)

आश्रित चर– स्वतंत्र चर के प्रभाव के कारण जो व्यवहार परिवर्तित होता है और जिसका अध्ययन तथा मापन किया जाता है, उसे आश्रित चर कहते हैं। (कपिल, 1980 पृष्ठ 68)

शोध का मुख्य आश्रित चर था–

- अभिवृत्ति

- **बाह्य चर**– प्रायोगिक स्थिति में स्वतंत्र चर के अतिरिक्त कुछ बाह्य कारक भी आश्रित चर को प्रभावित करते हैं। एसे चरों को बाह्य चर कहा जाता है। (कपिल, 1980 पृष्ठ 65)

  शोध के अन्तर्गत **बाह्य चर** निम्न थे–
  - समय
  - व्यक्तिगत परेशानी
  - विद्यालय का वातावरण

शोध में प्रयुक्त उपकरण

अभिवृत्ति मापनी– शोधकर्ता द्वारा विद्यार्थियों की समेकित शिक्षा के प्रति अभिवृत्ति जानने हेतु अभिवृत्ति मापनी निर्मित की गई। अभिवृत्ति मापन थर्स्टन के नौ बिन्दु और लिकर्ट के पाच बिन्दु आधारित हो सकते है। किंतु शोध के उद्देश्य के अन्तर्गत दो बिन्दु आधारित स्केल निर्मित किया गया जो सिमेन्टिक डिफरेन्शियल स्केल है।

सामान्य विद्यार्थियो की अभिवृत्ति मापन के लिए मापनी "क" व विकलांग विद्यार्थियो की अभिवृत्ति मापन के लिए मापनी "ख" निर्मित की गई, जिसमें 20 कथन रखे गए जो वस्तुनिष्ठ प्रकार के थे, जिनमें से आठ कथन नकारात्मक प्रकार के रखे गए, जिनका उद्देश्य था कि विद्यार्थी विचार किए बिना "सहमत" पर चिन्ह अंकित न कर दे। इस प्रकार नकारात्मक कथनो से विचारों की गहनता में वृद्धि की गई।

दो कथन विस्तृत उत्तर वाले रखे गए जिनमें समेकित शिक्षा से होने वाले लाभ व हानियों पर विस्तार से विद्यार्थियों के विचार व सुझाव लिए गए।

पूर्व निरीक्षण

पूर्व निरीक्षण के लिए दो बिन्दुओ पर आधारित 20 कथनो की मापनी निर्मित की गई जिसके द्वारा चार विद्यार्थियों पर पूर्व निरीक्षण किया गया।

सारणीयन के बाद आकड़ों के विश्लेषण व व्याख्या हेतु किसी सांख्यिकीय विधि का होना नितान्त आवश्यक होता है। प्राप्त आंकडों के विश्लेषण हेतु मध्यमान, मानक विचलन व टी का उपयोग किया गया।

प्रदत्तों का विश्लेषण

शोध परिकल्पनाओं का सत्यापन

सामान्य व विकलांग विद्यार्थियो की समेकित शिक्षा के प्रति अभिवृत्ति मे कोई सार्थक अन्तर नहीं है। विद्यालयों में समेकित शिक्षा के प्रति सामान्य व विकलांग विद्यार्थियों के प्राप्तांक अनुपात को निम्न तालिका में प्रस्तुत

किया है।

व्याख्या

तालिका 1 के अवलोकन से स्पष्ट है कि विकलाग विद्यार्थियों की समेकित शिक्षा के प्रति अभिवृत्ति के प्राप्तांको का मध्यमान 14.33 व प्रामाणिक विचलन 3.26 पाया गया जबकि सामान्य विद्यार्थियों की समेकित शिक्षा के प्रति अभिवृत्ति के प्राप्तांको का मध्यमान 15 93 व प्रामाणिक विचलन 2 67 पाया गया। टी परीक्षण 1.47 है। चूंकि प्रस्तुत टी का अभीष्ट मान 2 05 है और प्रस्तुत टी परीक्षण कम है, अतः अंतर सार्थक नहीं है। परिकल्पना अस्वीकार नहीं की जाती है।

तालिका 1

विद्यार्थी	*विद्यार्थियो की सख्या*	*मध्यमान*	*प्रामाणिक विचलन*	*टी. परीक्षण*	*सार्थकता*
विकलाग विद्यार्थी	15	14.33	3 26	1.47	एन एस.
सामान्य विद्यार्थी	15	15.93	2.67		

मुक्ताश 28 टी परीक्षण .05 स्तर पर 2 05 प्रस्तुत टी. परीक्षण 1.47

तालिका 2

विद्यार्थी	*विद्यार्थियों की संख्या*	*मध्यमान*	*प्रामाणिक विचलन*	*टी परीक्षण*	*सार्थकता*
विकलाग विद्यार्थी	4	16.50	2.60	19	एन एस
सामान्य विद्यार्थी	6	16 17	2.97		

मुक्तांश 8 टी परीक्षण 0 5 स्तर पर 2.31 प्रस्तुत टी. परीक्षण .19

व्याख्या

तालिका 2 के अवलोकन से स्पष्ट है कि सामान्य व विकलांग छात्रो की समेकित शिक्षा के प्रति अभिवृत्ति के प्राप्तांकों के मध्यमान 16.50 व प्रमाणिक विचलन 2.60 पाया गया। सामान्य व विकलांग छात्राओ की समेकित शिक्षा के प्रति अभिवृत्ति के प्राप्तांको का मध्यमान 16 17 व प्रामाणिक विचलन 2.97 पाया गया। टी. परीक्षण .19 है। चूकि 05 विश्वास स्तर पर प्रस्तुत टी का अभिष्ट मान 2 31 है, अतः प्रस्तुत टी परीक्षण कम है और अंतर सार्थक नहीं है। परिकल्पना अस्वीकार नही की जाती।

सामान्य व विकलाग छात्रो व छात्राओं की समेकित समेकित शिक्षा के प्रति अभिवृत्ति के प्राप्तांको का मध्यमान 14.56 व प्रामाणिक विचलन 1 64 पाया गया। टी. परीक्षण .87 है। चूकि .05 विश्वास स्तर पर प्रस्तुत टी का अभीष्ट मान 2.05 है। अत प्रस्तुत टी परीक्षण कम है। अतः अन्तर सार्थक नहीं है। परिकल्पना अस्वीकार नहीं की जाती।

विस्तृत कथनों का विश्लेषण

अभिवृत्ति मापनी में विद्यार्थियों के समेकित शिक्षा के प्रति विचारो को जानने के लिए दो कथन रखे गए।

उक्त प्रश्नों के प्राप्त उत्तरो के आधार पर निम्न परिणाम प्राप्त हुए—

तालिका 3

विद्यार्थी	*विद्यार्थियो की सख्या*	*मध्यमान*	*प्रामाणिक विचलन*	*टी. परीक्षण*	*सार्थकता*
उच्च आयु वर्ग	21	15 38	3 50		
के विद्यार्थी	9	14 56	1 64	.87	एन एस.

मुक्ताश 28 टी परीक्षण .05 स्तर पर 2 05 प्रस्तुत टी. परीक्षण .87

शिक्षा के प्रति अभिवृत्ति मे कोई सार्थक अन्तर नही है।

विद्यालयों में समेकित शिक्षा के प्रति छात्रो व छात्राओं के प्राप्तांक अनुपात को निम्न तालिका मे प्रस्तुत किया गया है।

व्याख्या

तालिका 3 के अवलोकन से स्पष्ट है कि सामान्य व विकलांग छात्रो की समेकित शिक्षा के प्रति अभिवृत्ति के प्राप्ताको के मध्यमान 15.38 व प्रामाणिक विचलन 3.50 पाया गया। उच्च आयु-वर्ग के विद्यार्थियो की

तालिका 4

विद्यार्थी	*समेकित शिक्षा से*		
	लाभ	*हानि*	*कुल*
विकलांग विद्यार्थी	11	4	15
सामान्य विद्यार्थी	10	5	15

व्याख्या

तालिका 4 के अध्ययन से स्पष्ट है कि 11 विकलाग विद्यार्थी समेकित शिक्षा से लाभ को स्वीकार करते हैं,

जबकि 4 विकलांग विद्यार्थी समेकित शिक्षा से हानि की विचारधारा रखते है।

निष्कर्ष व व्याख्या

इस अनुसधान में न्यादर्श के संतुलन व विश्लेषण करने के पश्चात् निम्न निष्कर्ष प्राप्त किए गए।

- सामान्य व विकलाग विद्यार्थियो की समेकित शिक्षा के प्रति अभिवृत्ति मे अंतर नहीं पाया गया। यह आशाजनक परिणाम की प्राप्ति है। सामान्य और विकलांग विद्यार्थियो में सकारात्मक अभिवृत्ति का कारण उनका साथ-साथ शिक्षा प्राप्त करना हो सकता है।
- सामान्य व विकलांग छात्र व छात्राओ की समेकित शिक्षा के प्रति अभिवृत्ति में अन्तर नहीं पाया गया। छात्र व छात्राओं में सकारात्मक अभिवृत्ति सहशिक्षा व शिक्षकों के छात्र व छात्राओ के मध्य अंतर्भेद नही रखने के कारण उनके विचारों में सकारात्मकता पाई गई।
- निम्न आयु-वर्ग व उच्च आयु-वर्ग के विद्यार्थियों में समेकित शिक्षा के प्रति अभिवृत्ति में अन्तर नही पाया गया।
- निम्न आयु-वर्ग के विद्यार्थियो मे समेकित शिक्षा के प्रति सकारात्मक अभिवृत्ति स्वय के आन्तरिक विचारधारा के कारण हो सकती है।

उच्च आयु वर्ग के विद्यार्थियो के सकारात्मक अभिवृत्ति का कारण उनका स्वय का अनुभव व सामाजिक वातावरण हो सकता है।

यद्यपि आयु ने समेकित शिक्षा के प्रति सकारात्मक अभिवृत्ति को प्रभावित नहीं किया, फिर भी, सामान्य व विकलाग विद्यार्थियो की सकारात्मक अभिवृत्ति से स्पष्ट है कि सामान्य व विकलाग विद्यार्थी प्राकृतिक व्यवहार के अन्तर्गत साथ-साथ अध्ययन करना चाहते है, विकलागता जिसमे बाधित नही है।

शोध का प्रभाव

- इस शोध के द्वारा समेकित शिक्षा को लागू करने मे सफलता मिलेगी।
- सामान्य व विकलाग विद्यार्थियो के सकारात्मक सबंधों मे वृद्धि होगी।
- विद्यालय व शिक्षकों मे विकलाग बच्चों के प्रति जागृति आएगी।
- अभिभावक वर्ग में सकारात्मक अभिवृत्ति आएगी।
- विकलांग बच्चो के प्रति समाज के दृष्टिकोण में परिवर्तन होगा। ▢▢

केरियर महाविद्यालय
भोपाल, म.प्र.

वर्तमान शिक्षा में नैतिक मूल्यों का ह्रास

❑ नीति

व्यक्ति, समाज, देश और अंततः पूरे विश्व को उन्नत करने के लिए विद्यार्थियों में नैतिकता या चारित्रिक दृढ़ता का होना अत्यन्त आवश्यक है। नैतिक मूल्यों के विकास के लिए घर तथा विद्यालय दोनों को सतत् प्रयत्न करने होंगे। सिर्फ उपदेश देकर नैतिकता या चारित्रिकता का पाठ तो पढ़ाया जा सकता है, पर उसे विद्यार्थियों के आचरण में नहीं उतारा जा सकता है। नैतिक मूल्यों को आचरण में उतारने के लिए आवश्यक है कि परिवार के सदस्य और अध्यापकगण अपने व्यक्तित्व के माध्यम से तथा दूसरे तरीकों से वांछित गुणों को विद्यार्थियों के व्यक्तित्व में सन्निहित कराएं।

आज चारो तरफ हिसा, अराजकता और भ्रष्टाचार की भयावह स्थिति व्याप्त है। शायद ही ऐसा कोई दिन गुजरता हो, जब समाचार-पत्रों मे उपर्युक्त आशय की सुर्खिया मुख्य पृष्ठ पर न दिखाई देती हो। वर्तमान समय मे, अपराधों का ग्राफ दिनो-दिन बढ़ता जा रहा है। इसका मुख्य कारण लोगों के व्यक्तित्व मे नैतिकता या चारित्रिक दृढता के भाव मे कमी आ जाना है। शायद नैतिकता-अनैतिकता के बीच अन्तर करने का विवेक भी दुर्बल पड़ गया है। आज हम जिस हालत मे हैं, उससे और नीचे गिरकर पशु जैसी अवस्था में न पहुंच जाएं। इसके लिए आवश्यक है कि आरम्भ से विद्यार्थियों मे नैतिक मूल्यों का विकास किया जाए, उनका चरित्र इतना सुदृढ बनाया जाए, जिससे भविष्य में वे ऐसा समाज बना सकें, जो आज की विभिन्न विसंगतियो से मुक्त हो। इसके लिए आवश्यक है कि विद्यालयो मे नैतिक व चारित्रिक शिक्षा का समावेश किया जाए।

मूल्यों को "काने" ने परिभाषित करते हुए लिखा है– "मूल्य वे आदर्श विश्वास या प्रतिमान हैं, जिनके एक समाज या समाज के अधिकांश सदस्यों ने ग्रहण कर लिया है।" पारसन्स ने कहा है– "मूल्य किसी सामाजिक व्यवस्था मे, कई अनुस्थापनों में से किसी एक अनुस्थापन को चुनने का एक मानक है।" मूल्य चरित्र निर्माण तथा व्यक्तित्व विकास के लिए अत्यन्त महत्वपूर्ण हैं। नैतिक मूल्यों के अन्तर्गत, ईमानदारी, त्याग, निष्ठा, करुणा, दया, उत्तरदायित्व की भावना, नम्रता आदि मूल्य आते है।

द्रुत गति से होने वाले आधुनिक औद्योगिक विकास, जनसख्या विस्फोट व नगरीकरण के कारण आज का मानव निरन्तर विनाश की ओर अग्रसर हो रहा है। सामाजिक जीवन अस्त-व्यस्त हो रहा है। गरीबों, असहायो का शोषण बढ रहा है। व्यक्ति स्वार्थी, अवसरवादी, भोगी, चाटुकार व कर्तव्य-विमुख हो रहा है। मानव का जीवन अशान्त हो गया है। इसका प्रमुख कारण मानव मूल्यो के प्रति उसकी निष्ठा का क्रमिक ह्रास है। इस नैतिक ह्रास के लिए हमारी शिक्षा प्रणाली भी उत्तरदायी है। प्राचीन भारतीय शिक्षा प्रणाली मानव मूल्यों को विकसित करने तथा आध्यात्मिक व्यक्तित्व के निर्माण में सक्षम थी। उसमें शारीरिक व मानसिक शिक्षा के अतिरिक्त आध्यात्मिक शिक्षा पर बल दिया जाता था। विद्यार्थियो का चारित्रिक विकास किया जाता था। प्राचीन भारत में चरित्र-निर्माण का कितना महत्व दिया गया है, इसका पता मनुस्मृति मे लिखी इस बात से चलता

है— "केवल गायत्री मन्त्र का ज्ञान रखने वाला चरित्रवान् ब्राह्मण सम्पूर्ण वेदो के ज्ञाता परन्तु चरित्रहीन विद्वान से कही अधिक श्रेष्ठ है। छात्रो का चरित्र निर्माण करना शिक्षा का एक अनिवार्य उद्देश्य माना जाता था।" महात्मा गांधी ने भी कहा था— "शिक्षा का मुख्य ध्येय चरित्र गठन होना चाहिए। धर्म के बिना चरित्र कैसे बन सकता है, यह मेरी समझ मे नही आ सकता। हम इतने भ्रष्टस्ततों- भ्रष्ट होते जा रहे है, इसका भान हमें आगे चलकर होगा। . . यदि विद्यार्थियों की नैतिकता चली गई, तो सब कुछ गया समझिए"। उन्होने अपनी आत्मकथा मे लिखा है— "मैने हृदय की सस्कृति या चरित्र-निर्माण को सदैव प्रथम स्थान दिया है। वर्तमान समय मे, शिक्षा एकागी हो गई है, जिसमे केवल बालक के मानसिक विकास व पुस्तकीय ज्ञान पर बल दिया जाता है। आज के समय में, शिक्षा का अर्थ परीक्षा मे अधिक से अधिक अको का अर्जन करना है। पढ़ाई का उद्देश्य मात्र डिग्री प्राप्त करके नौकरी पाना है। वर्तमान समय मे, बालकों मे मानव मूल्यों के विकास की तरफ किचित मात्र भी ध्यान नही दिया जा रहा है। इसके कारण आज सम्पूर्ण समाज विभिन्न प्रकार की समस्याओं से जूझ रहा है। वर्तमान समाज मे, मूल्यो का ह्रास हमारी शिक्षा के लिए एक गभीर चुनौती है, जिसे स्वीकार करके शिक्षा को ही मूल्यों का विकास करना होगा तथा शिक्षा मे सुधार द्वारा ही इन मूल्यो के ह्रास को रोका जा सकता है। शिक्षा आयोग मे कहा गया था— "विद्यार्थियों के नैतिक स्तर को उठाने के लिए एक ऐसा पाठ्यक्रम तैयार होना चाहिए जिसमें मानव धर्म के सारभूत सिद्धान्तों को रखा जाए।" विभिन्न शिक्षा आयोगो ने "नैतिक शिक्षा" के लिए समय-समय पर अनुशसाएं की है, परन्तु उनके सही क्रियान्वयन पर कोई ध्यान नही दिया गया। शिक्षा आयोग (1964-66) ने देश के गिरते नैतिक मूल्यों के प्रति चिता प्रकट करते हुए, आध्यात्मिक तथा नैतिक शिक्षा पर विशेष बल दिया। शिक्षा के सभी स्तरो पर नैतिक तथा आध्यात्मिक पाठ्यचर्या निर्धारित करने के लिए, राधाकृष्णन आयोग तथा श्रीप्रकाश समिति के सुझावो को अपनाने की सशक्त अनुसशा की। यह भी आशा की कि सम्पूर्ण पाठ्यक्रम मे मूल्य बोध हो। यदि वर्तमान सामाजिक, भौतिक तथा आध्यात्मिक सघर्ष को समाप्त करना है, तो मानव मूल्यो की शिक्षा देनी होगी।

नैतिक शिक्षा या चरित्र शिक्षा एक प्रक्रिया है, जो परिवार, समाज और विद्यालय से गुजरती हुई जीवन पर्यन्त चलती है। शिक्षा और नैतिक शिक्षा एक-दूसरे के पूरक हैं, क्योंकि कुछ विचारकों के अनुसार तो "शिक्षा" शब्द में ही नैतिकता का भाव समाहित है। विद्यालयो मे नैतिक शिक्षा को पाठ्य-विषयों के अन्तर्गत समाविष्ट कर दिया जाए और उसके माध्यम से उन्हे नैतिक शिक्षा प्रदान की जाए क्योंकि ऐसा करने से विद्यार्थी अन्य विषयो की विषय-सामग्री के साथ-साथ नैतिकता के बोध को भी सहजता से आत्मसात् करते जाएगे, इसके लिए आवश्यक है कि जीवन मूल्यों को सप्रेषित करने वाले शिक्षक की करनी और कथनी मे अंतर नही होना चाहिए, अन्यथा विद्यार्थियो पर उनकी बातों या नसीहतो का अनुकूल प्रभाव नही पड़ेगा। मूल्यो की स्थापना हेतु शिक्षकों को निम्न बिन्दुओं पर ध्यान देना आवश्यक होगा।

- शिक्षक मूल्यों के प्रति अपने आत्मविश्वास को सुदृढ़ बनाएं।
- शिक्षक के आचरण और व्यवहार का प्रभाव उसके संपर्क मे आने वाले छात्र-छात्राओ पर निश्चित रूप से पडता है।
- कक्षा का वातावरण तनावविहीन और लोकतात्रिक हो, जिसमें प्रत्येक छात्र-छात्रा अपनी जिज्ञासा शात कर सके।

आज अनेक प्रकार के प्रलोभन हमारे विवेक तथा स्वाभिमान को निगल रहे है। हमारी इच्छाए अनन्त हैं। आज अधिक से अधिक धन अर्जित करने की लालसा मनुष्य पर इस कदर हावी है कि वह अच्छे-बुरे की परख किए बिना रात-दिन दौलत कमाने में लगा हुआ है। नैतिक या चारित्रिक शिक्षा द्वारा बालको में आत्मसंतोष की भावना जागृत करना श्रेयस्कर है।

सांई इतना दीजिए जा में कुटुम्ब समाय।

मैं भी भूखा न रहू, साधु भूखा न जाए।।
गोधन गजधन बाजधन और रतनधन खान।
जब आवै संतोषधन, सब धन धूरि समान।।

विद्यार्थियों मे नैतिक मूल्यो का समावेश करने के लिए यह जरूरी है कि उन्हें समय के महत्व मूल्य से अवगत कराया जाए। समय अमूल्य है, यह किसी प्रकार से क्रय नहीं किया जा सकता। वह अपनी गति से आगे बढ़ता रहता है। समय किसी की प्रतीक्षा नहीं करता। निश्चित समय पर अपने कार्य पूरे करने वाले व्यक्ति सफलता प्राप्त करते है। कवीर ने लिखा हैः

काल करे सो आज कर, आज करे सो अब।
पल मे परलै होयगी, बहुरि करेगो कब।।

समय के मूल्य से छात्रो को अवगत कराने के लिए आवश्यक है कि विद्यालय में अध्यापक नियत समय पर कक्षा में आए और यह सुनिश्चित करे कि विद्यालय के विभिन्न क्रियाकलाप तय समय पर सम्पन्न हों, तो इन सबका प्रत्यक्ष प्रभाव विद्यार्थियो पर अवश्य पड़ेगा और वे समय के मूल्य को पहचान कर, उसके अनुरूप कार्य करेगे।

वर्तमान वातावरण में अनुशासनहीनता का ताण्डव नृत्य सर्वत्र हो रहा है। इसे रोकने के लिए आवश्यक है कि नैतिक व चारित्रिक शिक्षा द्वारा बालको को अनुशासन मे रहने की शिक्षा प्रदान की जाए। अनुशासन का अर्थ है विद्यार्थी संयमित होकर रीति-नीति, नियम-कानून का पालन करे। वास्तविक अनुशासन हमें सिखाता है कि हम स्वयं मर्यादित आचरण करे और दूसरों की मर्यादा का सम्मान तथा उसकी रक्षा करें। विद्यार्थियों पर अनुशासन को बाहर से थोपा न जाए, बल्कि उनके अन्दर स्वअनुशासन की भावना को जाग्रत किया जाए। बाहर से थोपा हुआ अनुशासन स्थायी नहीं होता, क्योकि अवसर मिलते ही विद्यार्थी उससे मुक्त होने की कोशिश करता है। वर्तमान शिक्षा मे स्वअनुशासन को बिल्कुल अनदेखा कर दिया गया है। इसके लिए आवश्यक हैं कि अध्यापकों के साथ-साथ माता-पिता और परिवार के अन्य सदस्य अपने व्यवहार और आचरण से बच्चों के सामने अनुशासन का आदर्श प्रस्तुत करे। बालको के अनुशासित रहने पर उनमें नैतिकता अपने-आप ही आ जाती है।

विद्यार्थियों को नैतिक बोध से युक्त करने के लिए यह भी आवश्यक है कि उनमे सहिष्णुता व भाईचारे का भाव उत्पन्न किया जाए। हमारी प्राचीन सस्कृति "वसुधैव कटुम्बकम" का पाठ पढाती है। इसी संदर्भ में अर्थवेद में लिखा गया है।

मा भ्राता भ्रातर द्विक्षन्मा स्वसारभूत स्वसा।
असम्यत्रव' स्रता भूत्वा वाच वदत भद्रया।।

अर्थात्, भाई को भाई से द्वेष नही करना चाहिए। तुम सब अच्छी प्रकार व्रतो (शुभ कर्मो तथा नियमो) का पालन करते हुए, एक-दूसरे के प्रति कल्याणकारी वाणी का प्रयोग करो अर्थात् सबसे मीठा तथा हितकर वचन बोलो।

सहिष्णुता का भाव जागने पर लोग दूसरो के धर्म, रीति-रिवाज, रहन-सहन तथा भाषा का उतना ही सम्मान करते हैं, जितना अपने धर्म और रीति रिवाजों का। इसके लिए आवश्यक है कि विद्यार्थियों को आरम्भ से ही विभिन्न धर्मो की उन बातों को बताया जाए जो सभी धर्मों में समान रूप से विद्यमान हैं। इस क्रम मे उन्हें विविध धर्मों के रीति-रिवाजो, परम्पराओं का परिचय दिया जाना चाहिए जिससे उन्हें सभी धर्मो की जानकारी हो और वे उसके वैशिष्टताओं से अवगत हो सकें। इसके लिए विद्यालयों मे ऐसे लघुनाटकों का मंचन किया जाना चाहिए जिनमें सर्वधर्म समन्वय और अनेकता मे एकता का विचार उभरता हो।

सत्य जीवन का शाश्वत मूल्य है, इसकी अनदेखी नहीं की जा सकती। सत्य ही ईश्वर है। सत्य बोलने से बडी कोई तपस्या नही। झूठ बोलने से बढ़कर जीवन मे काई दूसरा पाप नही। कबीरदास कहते हैं–

सांच बराबर तप नही झूठ बराबर पाप।
जाके हृदय सांच है ताके हृदय आप।।

विद्यार्थियों में सत्य बोलने की आदत डालने के लिए आवश्यक है कि शिक्षक स्वय अपना उदाहरण प्रस्तुत

करे। इसके अलावा सत्य बोलने से संबंधित कोई लघु कथा, किसी महापुरुष के जीवन की घटना-प्रसंग के उदाहरण छात्रों के सामने प्रस्तुत किए जाए।

नैतिक मूल्यो के सदर्भ मे परोपकार भाव का अत्यन्त महत्व है। इस संदर्भ में गोस्वामी तुलसीदास की ये पंक्तिया उल्लेखनीय है–

परहित सरिस धर्म नही भाई।
पर पीडा सम नहि अधमाई।।

तुलसीदास ने मानव धर्म के संदर्भ में परहित को सर्वोपरि धर्म बताया है। यदि इसे अपना लिया जाए तो लोगो मे एक-दूसरे की भलाई करने के लिए तत्परता बढेगी और लोगों के दु:ख कम हो जाएगे।

निष्कर्ष रूप मे कह सकते हैं कि व्यक्ति, समाज, देश और अंततः पूरे विश्व को उन्नत करने के लिए विद्यार्थियो मे नैतिकता या चारित्रिक दृढता का होना अत्यन्त आवश्यक है। नैतिक मूल्यो के विकास के लिए घर तथा विद्यालय दोनों को सतत् प्रयत्न करने होंगे। सिर्फ उपदेश देकर नैतिकता या चारित्रिकता का पाठ तो पढ़ाया जा सकता है, पर उसे विद्यार्थियो के आचरण में नहीं उतारा जा सकता। नैतिक मूल्यो को आचरण में उतारने के लिए आवश्यक है कि परिवार के सदस्य और अध्यापक अपने व्यक्तित्व के माध्यम से तथा दूसरे तरीकों से वांछित गुणों को विद्यार्थियो के व्यक्तित्व मे सन्निहित कराए। ❑❑

निकट नबाब कोंचिंग सेन्टर
यशोदा नगर, इटावा, उ.प्र.

मध्यम सामाजिक-आर्थिक स्तर की शिक्षित व अशिक्षित माताओं का यौन शिक्षा के प्रति दृष्टिकोण

❑ अर्चना कपूर

शिक्षित व अशिक्षित दोनों ही वर्गो की माताओं ने यौन शिक्षा की आवश्यकता पर समान रूप से बल दिया है। दोनों ही समूहों की माताओं ने जनसंख्या नियन्त्रण हेतु, यौन भेद के प्रति गलत धारणा को दूर करने हेतु एड्स से बचाव हेतु व यौन अपराध प्रवृत्ति को रोकने हेतु यौन शिक्षा की आवश्यकता को स्वीकारा है। अधिकांश शिक्षित माताओं का मानना है कि बच्चों को बाल्यकाल से ही यौन शिक्षा प्रदान की जानी चाहिए। शिक्षित माताएं बच्चों द्वारा पूछे गए यौन संबंधी प्रश्नों के उत्तर देने के पक्ष में हैं, जबकि अशिक्षित माताएं इस तथ्य से सहमत नहीं हैं। दोनों ही समूहों की माताओं का मानना है कि बच्चों को शारीरिक परिवर्तन यौन अंगों की जानकारी व सुरक्षा आदि के सन्दर्भ में समय से ज्ञान देना आवश्यक है। शिक्षित माताओं का मानना है कि इस कार्य हेतु विषय विशेषज्ञ की सलाह लेना आवश्यक है। निष्कर्ष रूप में कह सकते हैं कि आजकल जनसंचार माध्यमों व विज्ञापनों के बढ़ते हुए प्रभाव के कारण यौन शिक्षा की आवश्यकता और भी बढ़ गई है। अभिभावकों में विशेषकर अशिक्षित वर्ग को औपचारिक व अनौपचारिक शिक्षा प्रदान कर, इस समस्या का समाधान निकाला जा सकता है।

बालक के जीवन में यौन बोध प्रवृत्ति अत्यधिक प्रभाव डालती है। बालक में प्रारम्भ से ही यौन सबधी जानकारी प्राप्त करने की प्रबल जिज्ञासा होती है। अत· बालक के समुचित शारीरिक व मानसिक विकास की दृष्टि से उसे यौन संबंधी वाछित जानकारी उचित अवसर पर दी जानी परमावश्यक है। किशोरावस्था मे काम प्रवृत्ति प्रबल होने लगती है। इस अवस्था मे यदि इस प्रवृत्ति का मार्गान्तीकरण व निर्देशन उचित ढंग से नही किया गया तो बालक के व्यक्तित्व के विकास पर हानिकारक प्रभाव पड़ता है। यौन शिक्षा के अभाव के कारण समाज में यौन अपराधों का आविर्भाव होता है। उचित यौन शिक्षा के अभाव मे बालक अनुचित, अवांछनीय तथा अनैतिक साधनो से अपनी अपरिपक्व कामुकता की पूर्ति करते हैं। इससे उसका नैतिक, चारित्रिक व आर्थिक पतन होता है। वर्तमान मे एड्स यौन शिक्षा के अभाव का परिणाम है। इस समस्या को समाप्त करने मे अभिभावक व विद्यालय अपनी अहम् भूमिका निभा सकते हैं। नीटिंग सैण्ड फोर्ड व देवन (1994) के अनुसार—"माता-पिता का अपनी बढ़ती उम्र के बच्चों के साथ यौन सबधी विचारों का आदान-प्रदान न करना ही यौन शिक्षा के प्रसार मे बाधक है।"

परिवार में अभिभावकों का कर्तव्य है कि वे अपने बच्चों को शारीरिक परिवर्तन के तथ्यों से अवगत कराएं व उनसे मित्रतापूर्ण व्यवहार करें। अभिभावकों को अपने बच्चों की जिज्ञासाओं को स्पष्ट करने का प्रयास करना चाहिए। बालको के प्रश्नों का उत्तर निःसंकोच व सरल

भाव से देना चाहिए। माता-पिता के लिए यह आवश्यक हो जाता है कि वे अपनी बढ़ती उम्र के बच्चो के साथ यौन ज्ञान का आदान-प्रदान करें ताकि बच्चों में यौन भेद के प्रति गलत धारणा विकसित न हो । यह भी आवश्यक है कि विपरीत लिंगीय बालक-बालिकाओ के साथ आदरभाव विकसित करने हेतु यौन सबधी चर्चाए करें। भारतीय समाज में अधिकाशत' अभिभावक बच्चों को यौन शिक्षा प्रदान करने में झिझकते है, जिस कारण उनको उचित निर्देशन प्रदान नहीं कर पाते हैं। यौन रोगो व एड्स के बढते प्रभाव को देखते हुए सरकार ने 'नेशनल एड्स कन्ट्रोल कार्यक्रम' शुरू किया है। यौन शिक्षा के महत्व को ध्यान रखते हुए राष्ट्रीय शिक्षा नीति (1986) मे यौन शिक्षा को कोर पाठ्यक्रम मे सम्मिलित करने का दिशा-निर्देश दिया गया है। स्कूल कार्यक्रम के अन्तर्गत 18 राज्यों ने यौन शिक्षा को पाठ्यक्रम में सम्मिलित किया है। इसकी आवश्यकता को महसूस करते हुए सयुक्त राष्ट्र ने अपनी गतिविधियों में 'यूनाइटेड नेशन फण्ड फॉर पापूलेशन एक्टीविटीज' विकसित किया है, जिसके द्वारा समय-समय पर विभिन्न प्रकार की गतिविधियो का आयोजन किया जा रहा है। आवश्यकता है इन गतिविधियो से माताओं को परिचित कराया जाए व भाग लेने हेतु प्रेरित किया जाए। दूरदर्शन द्वारा यौन शिक्षा हेतु अनेक कार्यक्रम प्रसारित किए जा रहे हैं, फिर भी, एड्स विकराल रूप धारण करता जा रहा है। गैर सरकारी संस्थाए इस दिशा में सराहनीय कार्य कर रही हैं। अभिभावको में विशेषकर अशिक्षित वर्ग को औपचारिक व अनौपचारिक शिक्षा प्रदान कर इस समसया का समाधान निकाला जा सकता है। प्रस्तुत अध्ययन मे माताओं का यौन शिक्षा के प्रति दृष्टिकोण व उनके योगदान को जानने का प्रयास किया गया है।

अध्ययन का उद्देश्य

मध्यम आयवर्गीय शिक्षित व अशिक्षित माताओ का यौन शिक्षा के प्रति दृटिकोण का तुलनात्मक अध्ययन।

न्यादर्श

प्रस्तुत अध्ययन हेतु आगरा शहर के दयालबाग क्षेत्र से कुल 50 माताओ का चयन यादृच्छिक विधि द्वारा किया गया। इसमे से 25 माताएं शिक्षित व 25 अशिक्षित थीं।

अध्ययन में प्रयुक्त उपकरण

- सामाजिक आर्थिक स्तर मापनी : डॉ एस.पी. कुलश्रेष्ठ
- माताओ का यौन शिक्षा के प्रति दृष्टिकोण को जानने हेतु स्वनिर्मित प्रश्नावली का प्रयोग किया गया। इस प्रश्नावली मे कुल 40 प्रश्न हैं जो कि यौन शिक्षा की आवश्यकता, यौन शिक्षा प्रदान करने में माताओ का योगदान, यौन शिक्षा कब प्रदान की जाए तथा उसमें क्या-क्या विषय सम्मिलित किए जाएं आदि विषयो से संबंधित प्रश्न हैं।

प्रयुक्त सांख्यिकी

प्रस्तुत अध्ययन मे प्रदत्त गणना हेतु प्रतिशत् व काई वर्ग मान का प्रयोग किया गया।

शोध परिणाम

शिक्षित व अशक्षित माताओ के यौन शिक्षा की आवश्यकता के प्रति दृष्टिकोण का तुलनात्मक अध्ययन हेतु (X^2) काई वर्ग मान ज्ञात किया गया है जिसे तालिका 1 में प्रस्तुत किया जा रहा है।

तालिका 1 को देखने से विदित होता है कि मध्यम आय-वर्ग की शिक्षित माताएं व अशिक्षित माताए समाज में यौन अपराध रोकने, बालकों के व्यक्तित्व विकास, नैतिक मूल्यों के विकास हेतु यौन शिक्षा देना आवश्यक मानती हैं, दोनों माताओं के दृष्टिकोण मे सार्थक अन्तर पाया गया। शिक्षा के प्रभाव के कारण अशिक्षित माताओं के अपेक्षाकृत शिक्षित माताएं यौन शिक्षा के प्रति अधिक सकारात्मक दृष्टिकोण रखती थी।

तालिका 1

शिक्षित व अशिक्षित माताओं का यौन शिक्षा की आवश्यकता के प्रति दृष्टिकोण का प्रतिशत् व काई वर्ग (X^2) मान

क्रम संख्या	आयाम	शिक्षित माताएं		अशिक्षित माताएं		काई वर्ग मान
		हां %	नहीं %	हां %	नही %	
1.	समाज मे यौन अपराध को रोकने हेतु यौन शिक्षा	80%	20%	60%	40%	2.77*
2.	बालको के व्यक्तित्व विकास हेतु यौन शिक्षा	92%	8%	68%	32%	5.80*
3.	जनसख्या नियन्त्रण रखने हेतु यौन शिक्षा	92%	8%	84%	16%	1.23 NS
4.	बालकों में आत्मविश्वास, हीन भावना दूर करने हेतु यौन शिक्षा	88%	12%	72%	28%	1.31 NS
5.	बालको मे यौन भेद के प्रति गलत भावना दूर करने हेतु यौन शिक्षा	84%	16%	76%	24%	1.74 NS
6.	बालको में यौन शिक्षा के प्रति स्वस्थ भावना के विकास हेतु यौन शिक्षा	88%	12%	76%	24%	1.78 NS
7	विपरीत लिंग के प्रति सम्मान हेतु यौन शिक्षा	88%	12%	68%	32%	2.08*
8	बालकों को गलत राह पर भटकने से बचाने हेतु यौन शिक्षा	96%	4%	84%	16%	3.21*
9.	एड्स (बीमारी) से बचने हेतु यौन शिक्षा	92%	8%	92%	8%	— NS
10.	सुखी वैवाहिक जीवन व्यतीत करने हेतु यौन शिक्षा	88%	12%	72%	28%	2.75*
11.	पुरुषों द्वारा महिलाओं पर यौन उत्पीड़न रोकने हेतु यौन शिक्षा	92%	8%	68%	32%	5.80*
12.	नैतिक मूल्यो के विकास हेतु यौन शिक्षा	80%	20%	72%	28%	4.62*
13.	सफल दाम्पत्य जीवन के निमित्त यौन शिक्षा	68%	32%	64%	36%	.08 NS
14.	युवक-युवतियो मे यौन अपराध [illegible]	76%	24%	76%	24%	-छै

क्रम सख्या	आयाम	शिक्षित माताएं हां %	शिक्षित माताएं नहीं %	अशिक्षित माताए हां %	अशिक्षित माताए नही %	काई वर्ग मान
15	विवाह पूर्व यौन सबधो मे कमी लाने हेतु यौन शिक्षा	72%	28%	72%	28%	- NS
16.	युवक-युवतियो में यौन स्वच्छन्दता का विकास हेतु यौन शिक्षा	68%	32%	48%	52%	2 98*
17	भारतीय विवाह पद्धति बनाए रखने हेतु यौन शिक्षा	80%	20%	60%	40%	2 77*
18.	बच्चो में यौन के प्रति सकारात्मक दृष्टिकोण हेतु यौन शिक्षा	88%	20%	64%	36%	1.97 NS

* 01 स्तर पर सार्थक, NS असार्थक अन्तर।

88 व 72 प्रतिशत् माताए बालको मे आत्म- विश्वास, हीन-भावना दूर करने, स्वस्थ भावना का विकास, विपरीत लिग के प्रति सम्मान, सुखी वैवाहिक जीवन व्यतीत करने व बच्चों मे यौन के प्रति सकारात्मक दृष्टिकोण विकसित करने हेतु यौन शिक्षा की आवश्यकता को महसूस करती है व बालको मे विभिन्न शारीरिक परिवर्तन के फलस्वरूप जिज्ञासा प्रवृत्ति को शान्त करने हेतु यौन शिक्षा उचित समझती हैं। 92 प्रतिशत् शिक्षित व अशिक्षित माताएं एड्स बीमारी से बचाव हेतु यौन जानकारी आवश्यक मानती है ताकि बच्चो को यौन बीमारी से बचाया जा सके। माताएं एड्स बीमारी के बचाव हेतु यौन शिक्षा प्रदान करने के प्रति सकारात्मक दृष्टिकोण रखती हैं, इसका प्रमुख कारण सरकार द्वारा चलाए गए व्यापक कार्यक्रम, दूरदर्शन पर एड्स संबंधी जानकारी आदि हो सकता है।

सुखी वैवाहिक जीवन व्यतीत करने, पुरुषो द्वारा महिलाओ पर यौन उत्पीड़न रोकने, सफल दाम्पत्य जीवन व्यतीत करने, युवक-युवतियों में यौन अपराध प्रवृत्ति रोकने, विवाह पूर्व यौन सबधो में कमी लाने हेतु यौन शिक्षा की आवश्यकता को अशिक्षित माताओं के अपेक्षाकृत शिक्षित माताएं अधिक अनुभव करती हैं क्योकि शिक्षा के प्रभाव के कारण शिक्षित माताए यौन शिक्षा के प्रति अधिक जागरूक है।

जनसख्या नियन्त्रण हेतु, बालकों मे आत्मविश्वास, हीनता की भावना दूर करने हेतु व यौन अपराध प्रवृत्ति रोकने हेतु यौन शिक्षा प्रदान करने की आवश्यकता को शिक्षित व अशिक्षित महिलाओ ने समान रूप से अनुभूत किया अर्थात् दोनों समूहों के काई वर्ग मान में कोई सार्थक अन्तर नही देखा गया।

तालिका 2 को देखने से विदित होता है कि 84 प्रतिशत् शिक्षित तथा 56 प्रतिशत् अशिक्षित माताए बाल्यावस्था से ही बालको को यौन शिक्षा प्रदान करना उचित मानती है। दोनो माताओ के बाल्यावस्था मे यौन शिक्षा देने के प्रति दृष्टिकोण में सार्थक अन्तर पाया गया। 64 प्रतिशत् शिक्षित माताए किशोरावस्था मे भी यौन शिक्षा देने के पक्ष में थी, जबकि 80 प्रतिशत् अशिक्षित माताओ का मानना था कि बच्चो को किशोरावस्था से ही यौन शिक्षा प्रदान की जानी चाहिए। किशोरावस्था उपरान्त यौन शिक्षा देने के प्रति दोनो माताओ के दृष्टिकोण मे कोई सार्थक अन्तर नही पाया गया। 68 प्रतिशत् शिक्षित, 52 प्रतिशत् अशिक्षित माताएं अप्रत्यक्ष रूप से यौन शिक्षा देना उचित मानती है। समय, धन एवम् यौन शिक्षा के प्रति उपयुक्त जानकारी के अभाव से वे बच्चो को अप्रत्यक्ष रूप में यौन शिक्षा

तालिका 2

शिक्षित व अशिक्षित माताओं का यौन शिक्षा प्रदान करने के प्रति दृष्टिकोण का प्रतिशत् व काई वर्ग मान

क्रम संख्या	आयाम	शिक्षित माताए		अशिक्षित माताएं		काई वर्ग मान
		हा %	नही %	हां %	नहीं %	
1	बाल्यावस्था से यौन शिक्षा	84%	16%	56%	44%	5 10*
2.	किशोरावस्था मे भी यौन शिक्षा	64%	36%	80%	20%	2 72*
3.	किशोरावस्था उपरान्त 20-25 वर्ष के मध्य यौन शिक्षा	48%	52%	40%	60%	88 NS
4.	विवाहोपरान्त यौन शिक्षा	40%	60%	40%	60%	-NS
5	अप्रत्यक्ष रूप से यौन शिक्षा	68%	32%	52%	48%	1.37 NS
6.	पत्र-पत्रिकाओ के अलावा यौन शिक्षा प्रदान करना	76%	24%	60%	40%	1 72 NS
7.	पाठ्यक्रम के रूप मे यौन शिक्षा	44%	56%	40%	60%	.066 NS
8.	बच्चों के द्वारा यौन संबधी प्रश्नों के उत्तर देना	72%	28%	40%	60	2.20*
9	यौन शिक्षा प्रदान करने हेतु पति की सहमति	60%	40%	48%	52%	1.97 NS
10	यौन शिक्षा देने से पूर्व पति-पत्नी द्वारा विचार- विमर्श	64%	36%	40%	60%	.80 NS
11	यौन शिक्षा ज्ञान ग्रहण करने हेतु पत्र-पत्रिकाओं की सहायता	56%	44%	-	-	5.09*

*.01 स्तर पर सार्थक, NS असार्थक अन्तर।

प्रदान करना उपयुक्त मानती थी। दूरदर्शन, डाक्टर की सलाह आदि के माध्यम से 76 प्रतिशत् शिक्षित 60 प्रतिशत् अशिक्षित माताए, पत्र-पत्रकाओ के अलावा यौन शिक्षा प्रदान करना उचित समझती थीं। दोनों समूहों का काई वर्ग मान 1.72 है अर्थात् दोनों समूहो मे कोई सार्थक अन्तर नहीं पाया गया। शिक्षित व अशिक्षित माताओ का मानना था कि पत्र-पत्रकाओं के अलावा बच्चों की विभिन्न आयु मे जिज्ञासा प्रवृत्ति को शान्त करने हेतु प्रत्यक्ष यौन शिक्षा प्रदान करना आवश्यक है। 72 व 40 प्रतिशत् अशिक्षित माताएं बच्चों द्वारा पूछे गए यौन संबधी प्रश्नों का उत्तर देना उचित मानती थीं। दोनो ही समूहो का काई वर्ग मान 01 स्तर पर सार्थक पाया गया। अशिक्षित माताओं की तुलना में शिक्षित माताएं बच्चों द्वारा पूछे गए यौन संबंधी प्रश्नों का उत्तर देना उचित समझती थी। शिक्षित माताए बच्चों में हीनभावना दूर करने, व्यक्तित्व विकास, आत्मविश्वास लाने, गलत राह पर भटकने से रोकने हेतु, बच्चों में उत्पन्न विभिन्न प्रश्नो व समस्याओं का समाधान निसंकोच

तालिका 3

शिक्षित व अशिक्षित माताओं का यौन संबंधी विषय-वस्तु के प्रति दृष्टिकोण का प्रतिशत् व काई वर्ग मान

क्रम संख्या	आयाम	शिक्षित माताएं		अशिक्षित माताएं		काई वर्ग मान
		हां %	नहीं %	हां %	नहीं %	
1.	शारीरिक परिवर्तन की जानकारी	80%	20%	76%	24%	.17 NS
2.	यौन अंगों की जानकारी	72%	28%	60%	40%	1.20 NS
3.	यौन अंगों की स्वच्छता व सुरक्षा संबंधी जानकारी	68%	32%	60%	40%	.41 NS
4	मासिक धर्म की जानकारी	80%	20%	68%	32%	.11 NS
5.	समय से पूर्व मासिक धर्म की जानकारी	80%	20%	76%	24%	17 NS
6.	यौन अगों व शारीरिक परितर्वन सबंधी जानकारी हेतु विषय विशेषज्ञ की सलाह	68%	32%	40%	60%	3.3*

* 01 स्तर पर सार्थक, छै असार्थक अन्तर।

भाव से करती थीं। 64 व 40 प्रतिशत् अशिक्षित महिलाएं अपने पति से विचार-विमर्श कर बच्चो को यौन शिक्षा प्रदान करती थीं।

तालिका 3 के अवलोकन से विदित होता है कि 80 व 76 प्रतिशत् अशिक्षित माताए बच्चो को शारीरिक परिवर्तन की जानकारी देना आवश्यक मानती थी। दोनो समूहों का काई वर्ग मान .17 प्राप्त हुआ अर्थात् दोनो समूहो की माताओ के दृष्टिकोण में कोई सार्थक अन्तर नही पाया गया। 72 व 60 प्रतिशत् अशिक्षित माताएं यौन अंगो की जानकारी व स्वच्छता व सुरक्षा संबंधी जानकारी देना उपयुक्त समझती थीं। दोनों माताओं के प्रतिशत् मान से प्राप्त काई वर्ग का मान 1 20, .41 प्राप्त हुआ, अर्थात् दोनों माताओ के दृष्टिकोण में इस सन्दर्भ मे कोई सार्थक अन्तर नहीं पाया गया।

80 प्रतिशत् शिक्षित व 68 प्रतिशत् अशिक्षित माताए लड़कियों को मासिक धर्म की जानकारी समय से पूर्व देना उपयुक्त मानती थीं। दोनों समूहो का काई वर्ग मान .11, .17 प्राप्त हुआ अर्थात् दोनों माताओं का लड़कियो का समय से पूर्व मासिक धर्म की जानकारी देने के प्रति दृष्टिकोण में कोई सार्थक अन्तर नही पाया गया। शिक्षित व अशिक्षित माताएं लडकियो मे हीन भावना व किसी प्रकार की घटना से बचाने हेतु मासिक धर्म की जानकारी देना उपयुक्त मानती थीं। 68 प्रतिशत् शिक्षित व 40 प्रतिशत् अशिक्षित माताएं यौन अंगो व शारीरिक परिवर्तन की जानकारी बच्चों को देने हेतु डाक्टर या विषय विशेषज्ञ की सलाह लेना उचित समझती थी। दोनों समूहों का काई वर्ग मान 3.32 प्राप्त हुआ, जो कि सार्थक अन्तर को दर्शाता है, अर्थात् शिक्षित माताएं विषय विशेषज्ञ से सलाह लेने के पश्चात् ही बच्चों को निर्देशन प्रदान करती थी।

निष्कर्ष

उपरोक्त तथ्यों से स्पष्ट है कि शिक्षित व अशिक्षित दोनों ही वर्गो की माताओ ने यौन शिक्षा की आवश्यकता पर समान रूप से बल दिया। दोनों ही समूहो की माताओ ने जनसंख्या नियन्त्रण हेतु, यौन भेद के प्रति गलत धारणा को दूर करने हेतु, एड्स से बचाव हेतु व यौन अपराध प्रवृत्ति को रोकने हेतु यौन शिक्षा की आवश्यकता को स्वीकारा। अधिकाश शिक्षित माताओं का मानना है कि बच्चों को बाल्यकाल से ही यौन शिक्षा प्रदान की जानी चाहिए। शिक्षित माताए बच्चों द्वारा पूछे गए यौन संबधी प्रश्नो के उत्तर देने के पक्ष मे, जबकि अशिक्षित माताए इस तथ्य से सहमत नही थीं। दोनो ही समूहो की माताओं का मानना था कि बच्चों को शारीरिक परिवर्तन यौन अंगों की जानकारी व सुरक्षा आदि के सन्दर्भ में समय से ज्ञान देना आवश्यक है। शिक्षित माताओं का मानना है कि इस कार्य हेतु विषय विशेषज्ञ की सलाह लेना आवश्यक है। निष्कर्ष रूप में कह सकते हैं कि आजकल जनसचार माध्यमो व विज्ञापनों के बढ़ते हुए प्रभाव के कारण यौन शिक्षा की आवश्यकता और भी बढ़ गई है। अभिभावकों में, विशेषकर अशिक्षित वर्ग को औपचारिक व अनौपचारिक शिक्षा प्रदान कर, इस समस्या का समाधान निकाला जा सकता है। ▢▢

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दयालबाग, आगरा, उ.प्र.

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ज्ञानानन्द प्रकाश श्रीवास्तव द्वारा लिखित पुस्तक पर आधारित

❑ आयुष्मान गोस्वामी

भारतीय मनीषियों और ऋषियों ने शताब्दियो पहले योग की इस समृद्ध परम्परा का विकास किया। इन ऋषियों ने जीवन का अर्थ और दुःखों के पीछे कारणों को न केवल समझा, अपितु उनके निराकरण का उपाय भी खोजा। इन तत्व दर्शियों ने मन और इन्द्रियों की सीमाओं को लांघ कर उस सत्ता को खोजा, जिसका ज्ञान हो जाने के बाद मनुष्य दुःखों से छूटकर आत्मिक आनंद की प्राप्ति कर लेता है। ऋषियों ने मन की एकाग्रता से अतीन्द्रीय सत्ता का साक्षात्कार किया। योगियों ने अपनी अनुभूतियों की बौद्धिक व्याख्या की और उस अनुभूति को सर्वसाधारण के लिए प्राप्य बनाने हेतु व्यावहारिक व वैज्ञानिक पद्धतियों का विकास किया। इस रूप में पातंजलि के 'योगसूत्र' और उस पर लिखे 'व्यास भाष्य' को महत्वपूर्ण माना जा सकता है।

पाश्चात्य मनोवैज्ञानिको ने 'आत्मा के विज्ञान रूप' मनोविज्ञान को सीमित अर्थ में समझा। विश्व सभ्यता पर भारत की प्रभुसत्ता इसकी आध्यात्मिक खोजो व अनुभूतियों पर आधारित रही है। जीवन का अन्तिम लक्ष्य भी आध्यात्मिक अनुभूति ही रही है। पाश्चात्य भौतिक व जैविक विज्ञान अचेतन व चेतन तत्वों की ही खोज करते रहे है, जबकि भारत आत्मचेतन तत्व की खोज में जीवन का परमलक्ष्य मानता है।

आध्यात्मिक तत्व की अनुभूति व अभिव्यक्ति ही भारतीय दर्शन मे जीवन का परम लक्ष्य माना गया है, जिसके फलस्वरूप आत्मा, जीवन व मृत्यु के चक्र से मुक्त हो जाती है, उसे मोक्ष मिल जाता है, जहा आत्मा परमात्मा मे विलीन हो जाती है। दूसरे शब्दों में, वैयक्तिक तत्व सार्वभौमिक विराट तत्व मे समाहित हो जाता है। जीवन में इसी परमलक्ष्य की प्राप्ति हेतु भारतीय ऋषियों, मनीषियों, सतो व दार्शनिकों ने योग व ध्यान द्वारा आत्म तत्व का अध्ययन किया।

'आत्मा' व 'चेतना'– भारतीय दृष्टिकोण

आत्मतत्व को लौकिक, मनोवैज्ञानिक व पारलौकिक रूपो मे समझा जा सकता है। भौतिक, सासारिक समृद्धि हेतु क्षमताओं व शक्तियो का विस्फोटन लौकिक आत्मतत्व की अनुभूति है। मन की प्रक्रियाओ, शक्तियो व नियमो को समझना मनोवैज्ञानिक आत्मतत्व की अनुभूति है। पारलौकिक आत्मतत्व की अनुभूति आध्यात्मिक अनुभूति है अथवा विशुद्ध आत्मानुभूति है। यह आत्मतत्व सत्य, अनादि, सच्चिदानन्द, विशुद्ध व पूर्ण है। वेदो मे कहा गया है कि ब्रह्माण्ड के कण-कण मे यही स्वतत्र, नित्य, शुद्ध, पूर्ण व पवित्र तत्व विद्यमान है। मानव जीवन का परम पुरुषार्थ इसी आत्मतत्व की अनुभूति है, या दूसरे शब्दों मे कहें तो अपने 'निज स्वरूप' के साथ एकाकार हो जाना है। यही 'ज्ञान', 'आनन्द' व 'ब्रह्म' है। यह 'अनन्त', 'सत्', 'चित्' है। यह आत्मतत्व कीर्ति, शक्ति और शुचिता का आगाज है। मन और देह से

परे यह आत्मा स्वतंत्र है, जो देह-जनित बधन से मुक्त होने की कामना करता है। यह आत्मज्ञान न तो शास्त्रार्थ से हो सकता है, न बुद्धि की तर्कशक्ति से और न ही शास्त्र अध्ययन से। आत्मज्ञान अह को योग व ध्यान के माध्यम से सार्वभौमिक परम तत्व में विलीन करने से प्राप्त होता है।

गहन असीमित आध्यात्मिक साधना द्वारा शुद्ध चैतन्य का विस्तार करना, चेतना के अन्तिम लक्ष्य तक पहुंचना और चेतना का परिष्कार करना भारतीय ऋषियो, मनीषियों, तत्वविदों और दार्शनिको के लिए आत्मान्वेषण का विषय रहा है। हम कभी इस शुद्ध चैतन्य को 'मनस' के रूप में और कभी 'चित्त' के रूप में समझने का प्रयास करते रहे हैं। उपनिषदो में, ऋषियो ने चित् या चैतन्य को एक ऐसी सूक्षम शक्ति के रूप में देखा है, जो स्वयं अपने पर ध्यान केन्द्रित कर सकती है। दूसरी ओर, यही सूक्ष्म तत्व अपनी विभुता असीम ब्रह्माण्ड तक कर सकता है– "अणोरणियान् महतोमहीयान्"। इसे चैतन्य के एक ऐसे केन्द्र के रूप में देखा जा सकता है, जो 'पुरुष' की सभी अनुभूतियों व क्रियाओं का प्रेरक और साक्षी है।

चेतना के अध्ययन के पीछे हमारा ध्येय यह है कि हम किस तरह अपने अन्दर व्याप्त चैतन्य-तत्व का विकास कर सकें, परमानद ('मोक्ष') की प्राप्ति कर सकें, नित्य प्रकाशमयी ज्योति के दर्शन कर सकें, जिसे साधना द्वारा प्राप्त किया जा सकता है। प्रचीन साधको और ऋषियों ने सदैव उस शुद्ध चैतन्य तत्व को जानने का प्रयास किया, जो कूटस्थ है और मनोदैहिक विकारों से मुक्त नित्यानंद स्वरूप है। मनुष्य की बुद्धि ने सदैव 'स्थूल-जगत्', जो भौतिक तत्वों का मिश्रण है और 'सूक्षम जगत', जो शुद्ध चैतन्य स्वरूप है, को समझने का प्रयास किया है। कभी-कभी यह सूक्षम-जगत् इस प्रकार निष्प्राण हो जाता है कि 'स्थूल-जगत्' और उसके विकारों से ग्रसित होने लगता है। पर, जब 'सूक्षम-जगत्' को अपने स्वरूप का ज्ञान हो जाता है तो मनुष्य के जीव में अनंत शक्ति, चेतना और सामर्थ्य का संचार होता है। यहा हम उसी आन्तरिक आत्मशक्ति या 'सूक्षम-जगत्' या 'शुद्ध चैतन्य' को समझने का प्रयास कर रहे हैं।

चेतना को समझने में पाश्चात्य दृष्टि 'केन्द्र' केन्द्रित न होकर 'बाह्य केन्द्रित' रही है, जहां मन व मस्तिष्क की क्रियाओं को बाहर से देखने व समझने का प्रयत्न किया गया। हम कह सकते है कि पश्चिम में 'मनस्' और उसके क्रियाकलापो का अध्ययन कुछ इस प्रकार से हुआ है कि मानों चेतना को समझे बिना ही 'मनस्' को इच्छाओं और क्रियाकलापों का आधार मान लिया गया हो।

मनुष्य चेतना के उन्मार्जन की प्रक्रिया में उस अवस्था मे भी पहुचता है, जबकि वह आत्म चेतन की चेतना रखने लगता है, या कहें आत्मानुभूति करने लगता है। अपने को जानने की या आत्म-चेतन हो जाने की प्रक्रिया मनुष्य को ऐसी शक्ति प्रदान करने लगती है कि वह अपने कर्मो का मूल्यांकन या आत्मालोचन आरंभ कर देता है। अब वह उचित-अनुचित, शुभ-अशुभ का भेद करने में समर्थ हो जाता है। इस तरह का भेद करने वाली चेतना का आधार वही आत्मानुभूति है जो मनुष्य को आत्मज्ञान-परिपक्व बनाती है।

हम कह सकते हैं कि आत्म चेतना हमें आत्म-दर्शन की ओर उन्मुख करती है। उचित-अनुचित, सत्य-असत्य का भेद करने वाली चेतना भी आत्म-दर्शन का परिणाम है। आत्मा की आवाज या कहें आत्मा का दर्शन, हमे अपने पर नियंत्रण करना और अपना विस्तार करना, दोनों ही सिखाते है। नियत्रण का अर्थ होगा, मानवीय विकारों पर विजय प्राप्त करना और विस्तार का अर्थ होगा, अपनी अन्तर्निहित क्षमताओं का विकास। इन्द्रियो से प्राप्त सवेदनो पर आन्तरिक शक्ति का नियंत्रण हो, तो ये सवेदन उस ज्ञान के रूप मे परिवर्तित हो जाते हैं, जिसे 'संयम' कहा जाता है। इसी संयम को मानवता के संरक्षण और उद्धार का आधार माना जा सकता है। जहां आत्मनियंत्रण या संयम का अभाव है, वहीं पर हिसा, अन्याय व अधर्म फैलता है, और जहां 'सयम' की प्रधानता है, वहां न्याय, समरसता, शान्ति और सुख है।

माण्डुक्योपनिषद् में हमारी चेतना के विभिन्न स्तरों,

जाग्रत, स्वप्न, सुषुप्त और तुरीया को समझाया गया है। जाग्रत का अर्थ है, बुद्धि और मन की क्रियाशीलता, जब हम अपने चारों ओर घटने वाली घटनाओ के प्रति सचेत रहते है। स्वप्नावस्था को जागृति और सुषुप्ति के बीच की अवस्था माना जा सकता है। जब हम स्वप्न मे विचरण कर रहे होते हैं, सुषुप्ति शात निद्रा की अवस्था है जिसमें स्वप्न और जाग्रत दोनो अवस्थाओ का कुछ समय के लिए लोप हो जाता है। इसके बाद तुरीयावस्था आती है जो यौगिक अवस्था कही जा सकती है। यह अवस्था आनंदातिरेक की अवस्था है। जब साधक का विश्वात्मा के साथ एकाकार हो जाता है और अपना पार्थक्य अनुभूत नहीं करता। भारतीय परम्परा के अनुसार इस अवस्था में जीवात्मा, परमात्मा के साथ एक्य का अनुभव करती है। इस प्रकार तुरीयावस्था, जीवात्मा का परमात्मा के साथ एकाकार हो जाना और आनंदातिरेक की अनुभूति करना कहा जा सकता है। इस प्रकार के ज्ञान या अनुभूति के पीछे यौगिक या आध्यात्मिक साधना आधार रही होगी, जिसके द्वारा हमारे ऋषियों ने परमसत् के दर्शन किए।

तुरीयावस्था ब्रह्म के साथ एकाकार हो जाने की अवस्था है, जहा जीव और ब्रह्म का पार्थक्य सर्वथा मिट जाता है। यह एक प्रकार से ब्रह्म साक्षात्कार है, जिसे साधु या सत ध्यान और योग द्वारा प्राप्त करते हैं। इस तुरीयावस्था से अतीत या ऊपर की एक अवस्था और भी है, जिसे तुरीयातीत कहा गया है, जो अन्य सभी अवस्थाओ का आधार मानी जा सकती है।

तैत्तीरीयोपनिषद् में पंचकोषों की व्याख्या की गई है। इनमे 'अन्नमयकोष' प्रथम है, जो कि पचभूतो से निर्मित शरीर के रूप में समझा जा सकता है। इसके बाद 'प्राणमयकोष' आता है जो इन्द्रियों और सूक्षम तन्मात्राओं से संबंधित है। तृतीया कोष है, 'मनोमयकोष' जो चिंतन-मनन का आधार है। 'विज्ञानमयकोष' को चतुर्थ माना गया है, जो कि शुद्ध विषय निष्ठ चितन का आधार है और प्रत्यक्ष रूप से सत्य का ज्ञान करवाता है। पंचम है, 'आनंदमयकोष' जहा शुद्ध आत्मानंद के अतिरिक्त और कुछ नहीं रह जाता। तैत्तीरीयोपनिषद के अन्त मे एक ऐसी अवस्था को भी समझाया गया है जो आनंदमय कोष से भी परे है और इसी को 'तुरीयातीतावस्था' के रूप मे समझा जा सकता है।

तुरीयातीतावस्था मे एक साथ चेतना के दो स्तरों की अनुभूति होती है, पहला वह जहा चेतना नितात निज अनुभूति करती है और दूसरा वह जहा विविधता मे एकता की अनुभूति होती है। चेतना के इन दोनो स्तरो मे एक साथ शुद्ध ज्योति, सृजनात्मक आनंदातिरेक और विभुता के दर्शन किए जा सकते है।

यदि हम अपने ऊर्ध्वारोहण को समझना चाहते है तो चेतना की अवस्थाओ का अध्ययन आवश्यक हो जाता है। अचेतन प्रगति और विकास वैश्विक प्रगति के ही भाग के रूप में घटित हो रहे है। वैयक्तिक चेतना, उसकी क्षमताएं, शक्तिया और कार्य सभी को वैश्विक प्रगति में सहायक बना कर देखा जाना चाहिए, जिससे व्यक्ति आत्मचेतन होकर वैश्विक प्रगति के नियमो को समझ सके और अपनी आन्तरिक शक्तियों को जानकर उनका अधिपति वन सके। आधुनिक भारत के प्रज्ञा-मनीषी श्री अरविन्द ने अपने दर्शन में जिस 'समग्र-योग' की बात की है, वह न केवल मानवीय मस्तिष्क को स्वस्थ और मन को सशक्त बनाता है, अपितु चेतना को उसके परम गन्तव्य तक जाने के लिए प्रेरित भी करता है। ''समग्र योग' 'दैविक जीवन' का निर्दिष्ट बिन्दु है, जो वैयक्तिक चेतना और परम चेतना के बीच अवियोज्य सबध स्थापित करता है, जिससे मानव ब्रह्माण्ड के विकास के नियमो को समझ सके और उसका सहायक बन सके।

योग व ध्यान– आत्मानुभूति और चैतन्य साक्षात्कार

'योग', जीवन का वह दर्शन है, जो कुछ मनोवैज्ञानिक तथ्यों पर आधारित है और जिसका लक्ष्य देह और मनस के बीच उचित संतुलन स्थापित करना है, जो हमें जीवात्मा से परमात्मा तक ले जाता है। 'योग' शब्द की उत्पत्ति सस्कृत धातु 'युज' से हुई है, जिसका अर्थ है जुड़ना। इस रूप में योग हमें परम-सत या ईश्वर से जोडता है। योग एक प्रकार से निम्न मानवीय प्रकृति को उच्च

मानवीय प्रकृति तक ले जाता है, या कहें, दैहिक वासनाओं और कामनाओ को प्रज्ञा द्वारा शासित करना सिखाता है। योग का महत्व इस दृष्टि से भी है कि इसके द्वारा जीव का सांसारिक दुःखों और क्लेषो से मुक्त होकर परमात्मा से एकाकार हो जाता है। भगवद गीता मे कहा गया है– जो आत्मा में रमण करते हुए अपने मन, बुद्धि और अहंकार को नियत्रण मे रखता है, वह आत्मतुष्टि प्राप्त करता हुआ आन्तरिक आनद की अनुभूति करता है, जो कि इन्द्रियों और बुद्धि से परे है। मनुष्यो के स्वभाव के अनुरूप अनेक प्रकार के योग है। योग समग्र रूप मे एक आत्मविज्ञान और कला भी है। सार रूप में, योग ऐसी कला और विज्ञान है, जिसके द्वारा मनुष्य चेतना का परिष्कार करता हुआ परम तत्व तक पहुच सकता है। श्री अरविन्द ने कहा है कि संपूर्ण जीवन ही एक योग है, जिसमें विश्व व्यापी चेतना से एकाकार हो जाने की प्रक्रिया चलती रहती है।

योग संपूर्ण मानसिक शान्ति की अनुभूति है और शुद्ध आत्म-ज्ञान भी। यह मन की शक्तियो का विस्तार करता है। योग से प्राप्त एकाग्रता हमें जीवन के सूक्ष्म रहस्यो को समझने मे सहायता करती है, हमारी नैतिक चेतना को जाग्रत करती है। योग हमारे जीवन को आध्यात्मिकता की ओर ले जाता है और एक ऐसी आत्म-साक्षात्कारता प्रदान करता है, जहा ज्ञाता और ज्ञेय एक हो जाते हैं।

भारतीय मनीषियो और ऋषियो ने शताब्दियों पहले योग की इस समृद्ध परम्परा का विकास किया। इन ऋषियों ने जीवन का अर्थ और दुःखों के पीछे कारणो को न केवल समझा, अपितु उनके निराकरण के उपाय को भी खोजा। इन तत्वदर्शियों ने मन और इन्द्रियो की सीमाओं को लांघ कर, उस सत्ता को खोजा, जिसका ज्ञान हो जाने के बाद मनुष्य दुःखों से छूटकर आत्मिक आनद की प्राप्ति कर लेता है। ऋषियों ने मन की एकाग्रता से अतीन्द्रीय सत्ता का साक्षात्कार किया। योगियो ने अपनी अनुभूतियों की बौद्धिक व्याख्या की और उस अनुभूति को सर्वसाधारण के लिए प्राप्य बनाने हेतु व्यावहारिक व वैज्ञानिक पद्धतियों का विकास किया। इस रूप मे पातंजलि के 'योगसूत्र' और उस पर लिखे 'व्यास भाष्य' को महत्त्वपूर्ण माना जा सकता है।

जिस प्रकार दूषित दर्पण मे या अस्वच्छ जल में कोई प्रतिबिब नही बन सकता, उसी प्रकार अज्ञान, भ्रम और अहंकार से ग्रसित मनुष्य का मन शांत और स्थिर नहीं रह सकता या आत्म-दर्शन नही कर सकता। योग साधना के द्वारा मनुष्य अज्ञान रूपी माया का तिरोभाव करके ज्ञान रूपी प्रकाश के दर्शन कर सकता है। साधकों ने विभिन्न स्वभाव और प्रकृति के मनुष्यों के अनुरूप अनेक साधनो का विकास किया। योग के प्रकार यथा—ज्ञानयोग, भक्तियोग, कर्मयोग, हठयोग इत्यादि इसके उदाहरण है। जो ज्ञानी हैं, वे विवेक का अनुसरण करते हुए ज्ञानमार्गी हो सकते है, जो कर्मनिष्ठ है, वे परार्थ में अनासक्त भाव से कर्म करते हुए कर्मयोग की साधना कर सकते हैं, जो भाव प्रधान हैं, वे भक्तिभाव से ईश्वर के प्रति सर्वस्व समर्पण करते हुए भक्तियोग पर चल सकते है। जो मन पर पूर्ण नियत्रण कर, इन्द्रियों को विषयो से हटा कर ध्यान मग्न हो सकते हैं, उनके लिए राजयोग वरेण्य है। श्वास-प्रश्वास को नियंत्रित कर, आसनो के द्वारा चित्त को एकाग्र किया जा सकता है। हठयोग में हम मन को संतुलित करके, मस्तिष्क को शान्त भाव मे रखते हुए, परम् सत् का साक्षात्कार कर सकते है।

ध्यान की प्रक्रिया एक ऐसी शक्ति है जो हमे आनद की परकाष्ठा तक ले जाती है। जब साधक मन को एकाग्र करने का दीर्घ अभ्यास कर लेता है, तो वह ध्यान की अवस्था में पहुंच जाता है। यहां वह एकाग्रचित्त हो, किसी भी बिन्दु पर बिना किसी व्यवधान के लम्बे समय तक ध्यानावस्थित हो जाता है। ध्यान की अवस्था मे सारा विचार-चितन प्राण मे समाहित हो जाता है। यहां श्वसन की प्रक्रिया ही जीवन्तता के प्रमाण रूप में रह जाती है। ध्यान और निद्रा मे कुछ अन्तर है। निद्रा मे भी श्वसन क्रिया होती है, पर वहा आत्म चेतना का कुछ काल के लिए अभाव हो जाता है, जबकि

ध्यान मे आत्म चेतना की प्रधानता रह जाती है, अन्याय सासारिक चिंतन पूरी तरह तिरोहित हो जाता है। ध्यान की यह अवस्था हमे अपने पर नियत्रण करना, दैहिक विकारो से ऊपर उठना और मानसिक तनाव से मुक्त होना सिखाती है। ध्यान से अन्तर्ज्योति प्रकाशित होती है, जो हमारे आत्म चेतन होने का प्रमाण है।

ध्यान का विषय परम् सत्ता, आत्म चेतना या ईश्वर कुछ भी हो सकता है। व्यक्ति अपने विश्वास या आस्था के अनुसार किसी आध्यात्मिक चिन्ह या प्रेरणादायी निशान को ले सकता है और उस पर ध्यान केन्द्रित कर सकता है। ध्यान अपने आप में चेतना की उत्कृष्ट अवस्था है, जहां पहुंच कर आत्मा सभी बधनों से मुक्त, अपने शुद्ध-बुद्ध-मुक्त स्वरूप को पा लेती है। स्वामी विवेकानन्द कहते है—

"ध्यान और योग के द्वारा साधक अपने अदर व्याप्त शुद्ध-बुद्ध और सदामुक्त आत्मा का साक्षात्कार कर लेता है और फिर उसके लिए सासारिक माया का सदा के लिए अवसान हो जाता है।" (अक-सप्तम्, पृ 252)

योग व ध्यान का अभ्यास

योग का अभ्यास किसी समर्थ और कुशल गुरु के निर्देशन मे किया जा सकता है क्योकि योग साधना के अभ्यास की अनभिज्ञता या पूर्वपिक्षाओ को न जानना मन और देह दोनो के लिए हानिकारक हो सकता है। आयुर्विज्ञान के परीक्षणो और मनोवैज्ञानिक शोधो से ज्ञात हुआ है कि मन की नकारात्मक प्रवृत्तिया हानिकारक है और विभिन्न आधि-व्याधियो की जन्मदात्री हैं। इसके साथ ही अभ्यास आचरण की अति भी त्याज्य है यथा अत्यधिक उपवास करना, बहुत कम शयन करना क्योंकि इससे शरीर कमजोर हो जाता है। लेकिन हम यदि संयम का पालन करते हुए, अनुशासित जीवन जीते हुए, निद्रा की उचित पूर्ति करते हुए, अपने दैनिक कार्यो का संपादन करते हुए, योग साधना करते है, तो परिणाम सकारात्मक होंगे। इस तरह का समुचित सयमित जीवन हमें देह और मन दोनों पर नियंत्रण करना सिखाता है।

समय व वातावरण

योग व ध्यान के लिए सबसे उपयुक्त काल सूर्योदय और सूर्यास्त है, जब सारा प्राकृतिक वातावरण प्रदूषण रहित व शात होता है। शारीरिक व मानसिक शुद्धता के साथ जिस स्थान पर ध्यान किया जाना है, उसका स्वच्छ होना भी आवश्यक है। यदि यह स्थान वृक्ष, तालाब, नदी, फूल इत्यादि प्राकृतिक सौन्दर्य से घिरा हो तो और भी उपयुक्त है। ध्यान के पूर्व साधक को अपने गुरु या ईष्टदेव की आराधना करनी चाहिए जिससे मन एकाग्र-भावेन तन्मय हो सके। मन में किसी भी प्रकार की चिंता, आशा, द्वेष आदि को नहीं रखना चाहिए, क्योंकि ये ध्यान में व्यवधान उत्पन्न करते है।

मनोवैज्ञानिक घटक

देह को जिस भी स्थिति मे सुविधा के साथ स्थिर किया जा सके, वही आसन ग्रहण किया जाना चाहिए। ध्यानावस्था मे कमर और सिर को सीधा रखा जाना चाहिए, कहने का अर्थ है कि मन और देह अधिक समय तक जिस अवस्था मे सुखपूर्वक स्थिर रह सकें, वही अवस्था ग्रहण की जानी चाहिए। जहा देह की बाध्यता हो या कष्ट का अनुभव हो, उस अवस्था को तुरत छोड़ देना चाहिए। योगासन का अभ्यास वैयक्तिक सुविधा के अनुरूप व धीने-धीरे किया जाना चाहिए। निराहार होकर आसन किया जाए तो ठीक रहता है।

ध्यान में सबसे पहले साधक को किसी विषय या बिन्दु पर अपना ध्यान केन्द्रित करना चाहिए, अविच्छिन्न तेल धारावत्। मन में किसी भी प्रकार की सांसारिक इच्छा को प्रवेश नहीं होने देना चाहिए। साधक को मन द्वारा विचार करने की प्रक्रिया पर ध्यान करना चाहिए। इस तरह सबसे पहले किसी विषय पर ध्यान केन्द्रित किया जाता है, जिसे 'धारणा' कहते हैं, और जब धारणा मे नैरन्तर्य आ जाता है तो 'ध्यान' की अवस्था कहलाती है। इसके बाद एक और अवस्था आती है जब ध्याता, ध्यान और ध्येय तीनो का एकाकार हो जाता है, इसी को 'समाधि' कहते है। समाधि मे ध्याता को यह ध्यान नही रहता कि वह किस विषय पर ध्यान केन्द्रित कर

रहा है; न ही उसे ध्येय से अपने पार्थक्य का ज्ञान रहता है। समाधि की अवस्था मे मन अपने निज स्वरूप में ही ध्यानस्थ हो जाता है। दार्शनिक भाषा मे कहें, तो 'समाधि' की अवस्था मे ध्याता-ध्यान-ध्येय की त्रिपुटी का अनर्वचनीय अद्वैत मे विलय हो जाता है।

मानव जीवन में आध्यात्मिकता का महत्व

योग पर लिखे गए ग्रथो और शास्त्रो में इसके अंगों की व्याख्या भी की गई है। जैसे हम पातजलि के अष्टांग योग की बात करें तो उसमें प्रथम अग है– 'यम', जिसमें साधक से सत्य, अहिंसा, अस्तेय (चोरी न करना), अपरिग्रह और ब्रह्मचर्य के पालन की अपेक्षा की गई है। इसी प्रकार दूसरे अग-'नियम' में शौच (शारीरिक व मानसिक शुद्धता), संतोष, तप, स्वाध्याय (आध्यात्म प्रधान शास्त्रों का अध्ययन) और ईश्वर प्राणिधान (निरंतर ईश्वर का ध्यान करना) या ईश्वर के प्रति समर्पण की बात आती है।

जो लोग योग साधना के पथ पर चलना चाहते हैं, उनके लिए यम और नियम का पालन आवश्यक है। यम और नियम का पालन करने से मानसिक द्वेष और तनाव से मुक्त हो साधक मन को ध्यानस्थ करने की प्रक्रिया मे सहजता से आगे बढ़ सकता है। ध्यान करने से मन की शाति स्थिर होने लगती है और मस्तिष्क तनाव से मुक्त हो जाता है। इस तरह हम आत्मानुशासन से आत्मोन्नति का मार्ग प्रशस्त कर सकते हैं।

जितने भी शारीरिक रोग और मानसिक विकार होते है, वे सभी अनियमित व असयमित जीवन के परिणाम हैं। 'प्राणायाम' से श्वास की प्रक्रिया को नियमित बना कर, हम हृदय रोग से बच सकते है। योगासन के अभ्यास से हम शरीर को पुष्ट और गतिशील बनाए रख सकते है। ध्यान द्वारा चित्त को एकाग्र कर हम मानसिक शान्ति व दृढ़ निश्चयता प्राप्त कर सकते हैं।

योग साधना की अनुभूति यह बताती है कि हमारा मन-मस्तिष्क, देह की तरह ही एक यत्र के समान है, जिसका सही दिशा मे प्रयोग करते हुए हम चेतना के उस स्तर तक पहुच सकते हैं, जिसे शुद्धज्ञान रूप प्रकाश रूप और आनंदमय माना गया है। विज्ञान एक प्रकार से ज्ञान की वह शाखा है जो दैनिक परीक्षणों, प्रायोगिक विश्लेषणो, ऐन्द्रिक प्रमाणों पर आधारित है। जबकि योग, साधक की प्रत्यक्ष अनुभूति और आत्म-साक्षात्कार द्वारा साध्य विद्या है। योग द्वारा साधक अपनी उन्नति शीघ्रता से कर सकता है। योग की साधना इस रूप मे की जानी चाहिए कि मन और देह के बीच पूर्ण सामजस्य बना रहे, साथ ही आध्यात्मिक जीवन जीते हुए पूर्णता की प्राप्ति की जा सके। इसी को गीता में "योग कर्मसु कौशलम्" कहा गया है। मनुष्य मे व्याप्त अन्तर्निहित शक्तियों और क्षमताओ का पूर्ण विकास करना योग का लक्ष्य कहा जा सकता है। योग हमें शक्तियो के अपव्यय से बचाता है, अपने पर नियंत्रण करना सिखाता है, चितन व जीवन को सकारात्मक दिशा में ले जाता है। योग साधना आत्मा से परमात्मा तक सभी जीवों के साथ स्नेह और समदृष्टि का मार्ग है, जो 'वसुधैव कुटुम्बकम्' तक ले जाता है।

"योग मे सफलता न तो मात्र सैद्धान्तिक अध्ययन से अर्जित की जा सकती है, न ही वार्तालाप से, न ही शास्त्रों के पठन-पाठन से, इसकी सफलता का रहस्य तो सतत् अभ्यास ही है। –हठयोग प्रदीपिका।

योग की सतत् साधना से ही कष्टो को दूर किया जा सकता है, क्षीणताओं का नाश किया जा सकता है, दु:ख को आनंद में, कष्ट को प्रसन्नता मे, विफलता को सफलता मे और रुगणता को पूर्ण स्वास्थ्य में परिवर्तित किया जा सकता है। समर्पण, धैर्य और प्रयत्न से ही योग प्राप्ति संभव है। –भगवद्गीता

प्रशस्तिकरण व पुनरुत्थान

इस विचार-चिंतन के पश्चात् ऐसा लगता है कि योग और ध्यान की शिक्षा को हर स्तर पर, हरेक शिक्षण संस्थान मे एक आवश्यक और दैनिक गतिविधि के रूप में स्वीकार किया जाना चाहिए। योग और ध्यान में विशेषज्ञता रखने वाले बाह्य संसाधक व्यक्तियों को उन्मुखीकरण, प्रशिक्षण और अभ्यास हेतु आमंत्रित किया

जा सकता है। नई पीढी को 'आत्म-साक्षात्कार' के पथ पर अग्रसर करने हेतु 'योग' को उनके जीवन में स्थान दिया जाना चाहिए। युवा पीढ़ी मे बढ रही उछृंखलता और मानसिक हताशा को योग द्वारा अनुशासन व आत्मविश्वास में बदला जा सकता है। यदि हम अपनी परम्परागत भारतीय शिक्षा पद्धति और आत्मोत्थान की समृद्ध परपरा के प्रति सच्चे अर्थो मे निष्ठा रखते है, तो योग और ध्यान को शिक्षकों या शिक्षा से जुड़े प्राधिकारियों के लिए आवश्यक बनाया जाना चाहिए। योग और ध्यान किसी जाति, संप्रदाय, संस्कृति या धर्म विशेष के लिए न होकर, हर मनुष्य द्वारा अभ्यास योग्य है, फिर चाहे उसकी जाति, अवस्था, सामाजिक स्थिति या लिंग कुछ भी हो। योग और ध्यान कोई कपोल-कल्पना नहीं है, अपितु एक गहन, विश्वसनीय और मौलिक आध्यात्मिक साधना है, जिसे शिक्षा द्वारा संपूर्ण विश्व मे प्रचारित-प्रसारित किया जा सकता है। इस रूप मे शिक्षा का एक अनिवार्य पक्ष हो जाने से, योग और साधना विश्व शान्ति और मानवता के आध्यात्मिक कल्याण में सहायक होगी।

हमारी अपनी निष्ठा, समर्पण और सतत् अभ्यास ही वांछित या अभीष्ट परिणामो तक पहुचने में महत्वपूर्ण घटक हैं। □□

क्षेत्रीय शिक्षा संस्थान, भुवनेश्वर
उड़ीसा

नवल किशोर अम्बष्ट कृत जनजातीय शिक्षा– ज्वलंत समस्याएं

❑ पुष्पा मंडल

स्वतंत्रता प्राप्ति के कई दशकों के बाद अभी भी जनजातीय शिक्षा का प्रचार-प्रसार अपेक्षित स्तर से नीचे है। पुस्तक में जिन मुद्दों पर चर्चा की गई है उन पर जमीनी स्तर पर जांच-पड़ताल की आवश्यकता है। यह कहना अतिशयोक्ति नहीं होगी कि पुस्तक में जनजातीय शिक्षा से संबंधित समस्याओं के विभिन्न कारणों व संभावित सुझावों पर प्रकाश डाला गया है जो शिक्षाविदों, प्रशासकों व शैक्षिक योजनाकारों के लिए दिशा-निर्देश करने में सहायक होगी। जनजातीय समुदाय के शिक्षा से संबंधित जो तथ्य व आंकड़े प्रस्तुत किए गए हैं, वे शोध की दृष्टि से महत्वपूर्ण हैं। विशेषकर, संविधान (73वां संशोधन) के विभिन्न पक्ष व राममूर्ति समिति की सिफरिशों की विस्तृत चर्चा उल्लेखनीय है। शोधकर्ता के मार्गदर्शन के लिए ग्रंथ में प्रस्तुत किए गए सभी मुद्दे उपयोगी साबित होंगे।

'आश्रम स्कूल' के क्रियाकलाप व क्रियान्चयन विषय मे शोध कार्य करने का अनुभव व नवनिर्मित झारखड राज्य के विभिन्न जिलों से विशेषकर जनजाति बहुल जिलो के स्थानीय लोगो से भली-भांति परिचित होने के नाते मैं नवल किशोर अम्बष्ट द्वारा लिखित ''जनजातीय शिक्षा—ज्वलत समस्याए'' शीर्षक पुस्तक को पढ़ने के लिए स्वाभाविक ही आकृष्ट हुई। मैने अनुभव किया कि पुस्तक के विभिन्न अध्यायो मे जनजाति समुदाय की शिक्षा संबधी जिन समस्याओं व मुद्दों पर विश्लेषण किया गया है, उन पर पुनर्विचार व चितन-मनन की आवश्यकता है।

जनजातीय शिक्षा एक ऐसा मुद्दा है जो स्वतंत्रता के पहले से ही नीति निर्धारकों व समाज सुधारकों के समक्ष चिंता का विषय रहा है और कुछ हद तक वर्तमान समय में भी वैसा ही बना हुआ है। यह स्वीकार्य है कि देश के विभिन्न राज्यो के जनजातीय बहुल क्षेत्रों के विकास के लिए कई प्रकार की नीतियां निर्धारित की गई हैं, जिनके अंतर्गत जनजातीय समुदाय के विकास संबधी व युवा पीढ़ी को शिक्षा की मुख्य धारा से जोड़ने का प्रयास आदि शामिल हैं। लेकिन वे अपर्याप्त साबित हो रहे है। इस समुदाय के लिए अपेक्षित सामाजिक, आर्थिक व सांस्कृतिक विकास के लिए आज अधिक ठोस कदम उठाने की आवश्यकता है। भारत सरकार व राज्य सरकार के सम्मिलित प्रयास तथा दृढ़ इच्छा-शक्ति समय की मांग है। इस लक्ष्य की पूर्ति के लिए जनजातीय समुदाय व उनसे जुड़ी विभिन्न समस्याओं को जानना व समझना अत्यंत आवश्यक है। प्रस्तुत पुस्तक मे ऐसी समस्याओं व उनके संभावित निराकरण के विषय मे चर्चा की गई है। पुस्तक के विभिन्न अध्यायों में जनजातीय शिक्षा व विकास से जुड़ी सामाजिक और आर्थिक समस्याओ व उनके विभिन्न आयामों पर प्रकाश डाला गया है।

प्रस्तुत ग्रंथ के बारह अध्याय है। अध्याय एक और दो में जनजातीय शिक्षा संबंधी नीतियों और राष्ट्रीय शिक्षा नीति, जनजातीय समुदायों के सदर्भ में नीतिगत मुद्दों

पर विस्तार से विश्लेषण किया गया है। जनजातीय समुदाय के बच्चो की शिक्षा मे उनके परिवार की आर्थिक स्थिति सबसे बड़ी बाधा है। इसके अतिरिक्त, बडी सख्या मे जनजातीय समुदायों का समाज से दूर रहना, भिन्न-भिन्न प्रकार की बोली, यहा तक कि एक जनजातीय समुदाय मे क्षेत्र-विशेष के अंतर्गत मातृभाषा, रहन-सहन आदि में विषमता, समाज द्वारा शोषण किया जाना आदि जनजातीय समुदाय के शैक्षिक विकास के मार्ग मे बाधक साबित हो रहे है। दूसरी ओर, आधुनिक शिक्षा के विषय में जनजातीय समुदाय मे असतोष है। इसको देखते हुए शिक्षा का सही दिशा-निर्देश करने की आवश्यकता है, जो उनकी जीवन शैली व विशिष्ट जरूरतों पर आधारित होगे। इस प्रकार के महत्वपूर्ण तथ्यो का इस अध्याय में विश्लेषण किया गया है।

राष्ट्रीय शिक्षा नीति (1986) स्कूली शिक्षा को एक नई दिशा प्रदान करती है। यह शिक्षा नीति पहली बार सार्वभौमिक प्राथमिक शिक्षा के प्रति प्रतिबद्ध रही है। इसके अतर्गत अनुसूचित जाति की शिक्षा के लिए विशेष नीतिगत प्रावधान किया गया है। अध्याय दो मे इन विशिष्ट प्रावधानो के विषय में विस्तार से उल्लेख किया गया है। इस सदर्भ में अनुसूचित जाति/जनजाति समुदाय के बच्चो के लिए क्रियान्वित किए जा रहे आवासीय स्कूल/आश्रम स्कूल योजना के विषय में चर्चा विशेष रूप से उल्लेखनीय है। जनजातीय समुदायों में शिक्षा के विकास हेतु आश्रम स्कूल स्थापित करना निश्चित रूप से एक सकारात्मक कदम होगा। लेखक का यह सुझाव सर्वमान्य है। जनजातीय समुदाय के सामाजिक व शैक्षिक विकास के लिए सरकार द्वारा अनेक प्रकार की प्रोत्साहन योजनाएं क्रियान्वित की गई है। इस सदर्भ में लेखक का यह कथन, "ये उनकी आवश्यकताओ और जीवन शैली के अनुरूप नही थी", अस्वीकार नही किया जा सकता। जनजातीय समुदाय मे साहित्य व परंपरागत शिल्प व संस्कृति के विकास मे शिक्षा की अहम् भूमिका है। पाठ्यक्रम मे आवश्यक सुधार करते हुए, जनजातीय समुदाय के प्रति लोगों का ध्यान आकर्षित किया जा सकता है और उनमें निहित 'सृजनात्मक क्षमता' से अवगत किया जाना है। इस संदर्भ मे अध्याय दो मे राममूर्ति समिति द्वारा की गई विशेष सिफारिशो के विषय मे भी विशेष रूप से चर्चा की गई है।

अध्याय तीन से लेकर पाच मे, शिक्षा तथा जनजातीय सस्कृति' से सबधित है। जनजातीय सस्कृति पर शिक्षा का प्रभाव, यह विषय है अध्याय तीन का। आधुनिक शिक्षा के प्रभाव ने विशेषकर ईसाई मिशनरियो के प्रभाव, जनजातीय समुदायो को कुछ हद तक अपनी संस्कृति व सदियो पुरानी परंपरा से अलग कर दिया है तथा उनके धर्म परिवर्तन में महत्वपूर्ण भूमिका निभाई है। इस संदर्भ में लेखक द्वारा दृष्टात स्वरूप उल्लेख किया गया है– 'ऐसा करना आसान था, क्योकि जनजातीय लोगों का मन किसी अन्य विचार या आस्था से अप्रभावित था और उनका धर्म परिवर्तन करना आसान हो सकता था। अतः इस क्षेत्र में मिशनों ने विद्यालय शुरू किया और लोगों को अपने तरीके से अपने विचारो की दिशा मे मोड़ना आरभ किया। इस प्रकार ईसाई धर्म में परिवर्तित करने के लिए विद्यालयो ने प्रमुख भूमिका निभाई।'

शिक्षा चाहे ईसाई अथवा गैर-ईसाई एजेसियों द्वारा दी गई हो, मूलरूप से इसका प्रत्यक्ष व परोक्ष रूप से जनजातीय समुदायों की जीवन शैली में परिवर्तन मुख्य कारण रहा है। इस अध्याय मे आगे यह भी चर्चा की गई है कि किस प्रकार शिक्षा के प्रचार से जनजातीय समुदाय मे अर्थव्यवस्था में परिवर्तन हुआ है। आजकल शिक्षित जनजातीय समुदाय (अधिकाश ईसाई) स्वयं को अपने बांधवो से सास्कृतिक दृष्टि से कटा हुआ व विभाजित महसूस करने लगा है। इस सबध में मुडा, उराव और खरिया जनजातियों पर शिक्षा के प्रभाव की विशेष रूप से चर्चा की गई है। वर्तमान शिक्षा प्रणाली उत्तरदायी है- "उन परिवर्तनो के लिए जो हो चुके हैं, उन परिवर्तनो के लिए जो अभी प्रक्रिया मे हैं और उन परिवर्तनो के लिए जो भविष्य में होने वाले है।"

अध्याय चार व पाच में क्रमशः जनजातीय पंचायत नवीकरण का मामला तथा जनजातीय शिक्षा और जनजातीय पहचान विषय पर विस्तृत रूप से प्रकाश डाला गया है, विशेषकर उराव जनजाति की पचायत

की सरचना व उसकी कार्य प्रणाली पर। अध्याय चार में आगे भारतीय सविधान में 73वां सशोधन, 1992 के अतर्गत शामिल किए गए (संविधान में अनुच्छेद 243 मे भाग 9 मे शामिल) जनजातीय समुदाय से संबंधित पंचायत अधिनियमों जैसे अनेक उल्लेखनीय तथ्यो पर विस्तार से चर्चा की गई है। किसी भी जाति व समुदाय की सदियो पुरानी परपरा व संस्कृति को शिक्षा के माध्यम से आगे पीढ़ी-दर-पीढ़ी संजोया रखा जाता है, उनकी स्वतंत्र पहचान बनाए रखने के लिए। अध्याय पाच मे लेखक द्वारा यह चर्चा की गई है कि जनजातीय समुदाय के क्षेत्र मे ऐसा नहीं हुआ। लेखक के शब्दो मे, 'हमारे विद्यालय के कुछ ही पाठ्यक्रम में जनजातीय समुदायो मे से किसी का मानव जाति संबंधी विवरण होगा जिसके फलस्वरूप हम उनके संस्कारो और मूल्यों की शक्तियों की सराहना कतई नहीं कर पाते। इस प्रकार जनजातीय पहचान क्षीण होती जा रही है, विशेष रूप से, उन जनजातियों की, जो विद्यालयी शिक्षा की प्रक्रिया मे लगे हैं।' वास्तव में यह सही है। यह सर्वमान्य है कि क्षीण होती जा रही जनजातीय पहचान को पुनर्स्थापित करने के लिए शिक्षा की विषय-वस्तु और प्रक्रियाओं को उपयुक्त ढंग से समायोजित करने की आवश्यकता है, जिससे सास्कृतिक असतुलन से बचा जा सके।

अध्याय छ· से लेकर नौ के अतर्गत जनजातीय शिक्षा के परिदृश्य के विभिन्न पहलुओं पर प्रकाश डाला गया है। पिछले दशकों मे देश मे साक्षरता दर में सतोषजनक वृद्धि हुई है। लेकिन जनजातीय समुदाय में साक्षरता दर अभी निराशाजनक है। इस तथ्य को स्पष्ट करने के लिए शोधकार्यो द्वारा उपलब्ध कारण व सामान्य बच्चों की नामांकन दर के साथ जनजातीय बच्चों की नामांकन दर के तुलनात्मक आंकड़े प्रस्तुत किए गए है, जो निराशाजनक हैं। इसमें संदेह नहीं है कि जनजातीय समुदाय में शिक्षा के प्रचार व प्रसार की समस्या अलग-अलग प्रदेशो मे अलग-अलग है, जो स्थानीय, सामाजिक, आर्थिक व सांस्कृतिक पहलुओं पर निर्भर होती है। लेकिन कुछ ऐसे कारण हैं जो सभी प्रदेशों के जनजाति समुदाय में सामान्य रूप से लागू होते हैं। अतः जनजातीय समुदाय की शिक्षा के संदर्भ में शैक्षिक योजनाकारों व सलाहकारों को इस पर अमल करने की आवश्यकता है।

अध्याय आठ 'जिला प्राथमिक शिक्षा कार्यक्रम' के अतर्गत किए गए एक व्यापक शोध कार्यक्रम, ''जनजातीय अध्ययनसीः नामाकन, अवधारण तथा उपलब्धि में घर, समुदाय तथा स्कूल तत्वों'' पर आधारित है। विषय-वस्तु को दो भागो मे प्रस्तुत किया गया है। भाग एक मे देश के जनजातीय बहुल्य प्रदेश जैसे— असम, कर्नाटक, केरल, मध्य प्रदेश, उडीसा, महाराष्ट्र व तमिलनाडु के कुछ प्रमुख जनजातियो की विशिष्ट श्रेणी के विषय में उल्लेख किया गया है जिसके अंतर्गत इन समुदायों में व्याप्त पारिवारिक व सामाजिक रीति-रिवाज, विशेषकर शादी विवाह से सबधित रोचक व महत्वपूर्ण संस्कार व घटनाओ पर प्रकाश डाला गया है। इस अध्याय में लेखक द्वारा इस बात पर प्रकाश डाला गया है कि जनजातीय समुदाय के रीति-रिवाज, सामाजिक सरचना, जीवन-शैली दूसरे जनजातीय समुदाय से भिन्न होती है। लेखक का कहना है कि स्कूल मे नामांकन व अवधारण इन पहलुओं से प्रभावित होते है।

अध्याय आठ के भाग दो मे इस बात पर विशेष रूप से ध्यान आकृष्ट किया गया है कि शिक्षा के क्षेत्र मे योजना तथा उसके कार्यान्वियन के लिए उस समुदाय के पंचायत को एक मूल इकाई के रूप में लिया जाना चाहिए जो क्रियान्वयन किए जा रहे क्रियाकलापों का समुचित रूप से निरीक्षण व पर्यवेक्षण कर सके। लेखक का यह भी कहना है कि जनजातीय समुदाय के बच्चो के शैक्षिक विकास के लिए उनके आर्थिक, सामाजिक व सांस्कृतिक जरूरतों के परिप्रेक्ष्य मे स्कूल पूर्व सुविधाओं को अनुकूल बनाने की आवश्यकता है। यह तथ्य विचारणीय है। इस संदर्भ में ग्राम शिक्षा समितियों की अपेक्षित भूमिका व उनके दायित्व पर प्रकाश डाला गया है।

अध्याय नौ जनजातीय क्षेत्रों में प्राथमिक शिक्षा स्तर पर विद्यालय प्रभावशीलता और कक्षा की प्रक्रियाओं से

सबंधित है। जनजातीय शिक्षा से सबधित कुछ ज्वलंत समस्याएं जैसे प्रचलित शिक्षा कार्यक्रम, जनजातीय समाज व व्यावहारिक जीवन के लिए अनुपयुक्त पाठ्यपुस्तको का जनजातीय भाषा मे उपलब्ध न होना, सार्वभौमिक प्राथमिक शिक्षा के परिप्रेक्ष्य मे इन मुद्दों की महत्ता को प्रस्तुत किया गया है। लेखक द्वारा उठाए गए प्रश्न– क्या एम.एल.एल. दस्तावेज में उल्लेख किए गए भाषा, गणित व पर्यावरण के क्षेत्र मे प्राथमिक शिक्षा स्तर के लिए निर्धारित न्यूनतम अधिगम स्तर जनजातीय बच्चो की विशिष्ट आवश्यकताओं के अनुरूप है? सर्वथा प्रासगिक है। पाठ्यक्रम की योजना बनाना तथा विकास, पाठ्यचर्या अत क्रियात्मक दृष्टिकोण तथा मूल्यांकन प्रक्रियाओं का विकेन्द्रीकरण इस अध्याय का केन्द्र बिदु है। अध्याय दस मे जनजातीय समुदाय से संबंधित शैक्षिक क्षति जैसी समस्या पर प्रकाश डाला गया है। यदि बच्चे विद्यालय में पढ़ाई प्रारंभ करके बीच मे ही छोड देते हैं अथवा एक कक्षा में अनुत्तीर्ण हो जाते है, तो निवेश की दृष्टि से धन व मानव संसाधन तथा क्षमता की क्षति होती है। दृष्टांतस्वरूप लेखक द्वारा सोकातो राज्य, नाइजीरिया में प्राइमरी स्तर पर व्याप्त शैक्षिक क्षति का उल्लेख किया गया है। केवल अन्य देशो मे ही नही, अपितु हमारे देश के विकास के परिप्रेक्ष्य में भी यह बाधक है।

उल्लेखनीय है कि जनजातीय समुदाय की विभिन्न समस्याओ पर समय-समय पर अनुसधान होते रहे है, लेकिन जनजातीय महिलाओं के कार्य तथा उनकी शिक्षा पर पृथक रूप से व्यापक अनुसधान की आवश्यकता है। अध्याय ग्यारह व बारह का यही विषय है। विषय की गंभीरता को समझने के लिए जनजातीय महिलाओं में शिक्षा की स्थिति से संबधित महत्वपूर्ण आंकडे प्रस्तुत किए गए है। लेखक द्वारा यह अनुशंसा करना प्रासगिक है कि महिलाओ की विशिष्ट जरूरतों को ध्यान में रखते हुए, समाज शिक्षा का एक पैकेज तैयार किया जाना चाहिए। इस सदर्भ मे जनजातीय समाज मे शिक्षा की परंपरागत समस्याएं, महिलाओं की शिक्षा व सशक्तिकरण, जनजातीय प्रौढ़ महिला शिक्षा जैसे महत्वपूर्ण तथ्यों पर विस्तार से चर्चा की गई है। वास्तव में 'एक पूर्णत' नई शिक्षण सामग्री विकसित करने की आवश्यकता है, जिसमे जनजातीय वातावरण से ही पूरी सामग्री ली जाए तथा जो बालिकाओं की जरूरतो के अनुरूप हो।'

पुस्तक के अंतिम अध्याय मे लेखक द्वारा पाठक वर्ग के लिए विषय से जुडे उन मुद्दो पर चर्चा की गई है, जिन पर व्यापक रूप से अनुसधान की आवश्यकता है। सही कहा गया है कि जनजातीय महिलाओं, उनके कार्य, सामाजिक संरचना व सदियों पुराने संस्कार, रीति-रिवाजो को ध्यान मे रखते हुए, देश की शिक्षा योजना तथा उसके क्रियान्वयन की जो रूपरेखा अपेक्षित थी, उसमे कमी रह गई है।

स्वतत्रता प्राप्ति के कई दशको के बाद अभी भी जनजातीय शिक्षा का प्रचार व प्रसार अपेक्षित स्तर से नीचे है। पुस्तक मे जिन मुद्दो पर चर्चा की गई है, उन पर जमीनी स्तर पर जांच पड़ताल की आवश्यकता है। यह कहना अतिशयोक्ति नही होगी कि पुस्तक में जनजातीय शिक्षा से सबधित समस्याओ के विभिन्न कारणो व संभावित सुझावो पर प्रकाश डाला गया है, जो शिक्षाविदों, प्रशासकों व शैक्षिक योजनाकारो के लिए दिशा-निर्देश करने मे सहायक होगा। जनजातीय समुदाय की शिक्षा से संबंधित जो तथ्य व आंकडे प्रस्तुत किए गए है, वे शोध की दृष्टि से महत्वपूर्ण हैं। विशेषकर, संविधान (73वा संशोधन) के विभिन्न पक्ष व राममूर्ति समिति की सिफरिशों की विस्तृत चर्चा उल्लेखनीय है। शोधकर्ता के मार्गदर्शन के लिए ग्रथ में प्रस्तुत किए गए सभी मुद्दे उपयोगी साबित होंगे।

पुस्तक की भाषा सरल व सहज है। अहिंदी भाषी पाठक भी इसे धाराप्रवाह रूप से पढकर कर विषय की गभीरता को समझने में समर्थ होगे। जनजातीय समुदाय की शिक्षा से जुड़ी ज्वलंत समस्याओं, विभिन्न मुद्दों, बाधाओं तथा इनके निवारण हेतु दिए गए सुझावो को समझने के लिए यह पुस्तक सभी वर्ग के पाठको के लिए उपयोगी है। लेखक का प्रयास सराहनीय है। ❑❑

राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद्
नई दिल्ली

सामाजिक विघटन के कारण व उपचार

❐ भावेश चन्द्र दूबे

माता-पिता से बालक को जो शिक्षा मिलती है, उसे आधुनिक शिक्षाशास्त्र की परिभाषित शब्दावली में 'अनौपचारिक' शिक्षा कहा जाता है, जबकि हम इस भ्रान्ति के शिकार हैं कि बाल्यावस्था की सार्थकता 'औपचारिक' शिक्षा में है। हम भूल जाते हैं कि औपचारिक शिक्षा की पकड़ बुद्धि पर होती है, जबकि अनौपचारिक बनाने हेतु व्यवहार करते हैं। उसी तरह का व्यवहार उन्हें विद्यालय तथा समाज में प्रदर्शित करना चाहिए। विद्यालय में छात्र के केवल ज्ञानात्मक पक्ष का ही नहीं, अपितु भावात्मक तथा क्रियात्मक पक्ष का भी मूल्यांकन किया जाना चाहिए, जिससे पता चलता रहे कि जो समाज के भविष्य निर्माता हैं, उनमें किस प्रकार के संस्कार और संस्कृति विकसित हो रहे हैं तथा उनमें किस प्रकार का सुधार किया जा सकता है।

जिस देश में आज भी 70 प्रतिशत् से अधिक व्यक्ति निरक्षर हो, वहां सत्य का स्मरण करते हुए भी सकोच होता है कि वहां शिक्षा की परम्परा अत्यन्त प्राचीन है। संकोच इसलिए और भी होता है कि आज जिसे हमने शिक्षा मान लिया है, उसकी न तो कोई प्राचीन परम्परा है और न वह वस्तु शिक्षा ही है। आज शिक्षा प्राप्त करने का अर्थ है विद्यालय/महाविद्यालय/विश्वविद्यालय में प्रवेश लेना, एक निश्चित अवधि तक वहां की फीस देते रहना, प्रमाण-पत्र के रूप में अलादीन का कलयुगी चिराग प्राप्त करना। अकबर इलाहाबादी के शब्दो मे—

क्या बताएं यार क्या कारेनुमायां कर गए,
बी.ए किया नौकर हुए पेंशन मिली फिर मर गए।

कोई भी ऊंची डिग्री ले लीजिए फिर भी आगे की कहानी में कोई फर्क नहीं आएगा। इस शिक्षा का इतिहास तो बस लगभग अधिक से अधिक एक शताब्दी पुराना है। विदेशी शासकों द्वारा अपने साम्राज्य के संचालन मे भारतीयों का सहयोग प्राप्त करने के विचार से शुरू की गई इस "शिक्षा" की योजना बस इतनी थी कि कुछ भारतीयों को अंग्रेजी भाषा और अंग्रेजी शिष्टाचार का ज्ञान करा दिया जाए, ताकि ऐसे "शिक्षित लोगो की अग्रेजी भक्ति" पर विश्वास किया जा सके और इन्हें शासन का मोहरा बनाया जा सके। सत्ता के मद में डूबे राजा को यस-मैन की हिज़ मास्टर्स वायस की आवश्यकता होती है, विवेक का प्रयोग करने वाले की नही, वहां जरूरत होती है, हा कहने वालों की, "क्यो पूछने" वालो की नही। फिर वह चाहे सैनिक सेवा हो चाहे असैनिक, ऐसे फरमांबरदार तैयार करने के लिए जिस तरह ट्रेनिंग की जरूरत थी, वैसी ट्रेनिंग देने को हमारे आंकड़ों ने जो प्रबन्ध किया, उसे ही शिक्षा की संज्ञा दे दी गई।

आधुनिक प्रचलित शिक्षा व शिक्षा व्यवस्था का सम्बन्ध पुरुषार्थ चातुष्टय (अर्थ, धर्म, काम, मोक्ष) सिद्धि नैतिक और आध्यात्मिक मूल्यो की प्राप्ति "सा विद्या या विमुक्तये" से न रहकर केवल ऐसी सूचनाएं एकत्र करना हो गया, जो सरकारी कामकाज के संचालन के लिए आवश्यक हो, जो ब्रिटिश शासकों और उनकी जीवन

शैली के प्रति सम्मान, श्रद्धा और निष्ठा जगाए ताकि हम उनका विश्वास अर्जित कर सके। ग्रेसम के नियमानुसार, शिक्षा मन पर और मानव व्यवहार को रूपान्तरित करने का काम वास्तव में मन ही करता है। यजुर्वेद के 34वें अध्याय मे वैदिक ऋषि ने प्रार्थना की है, "तम्मे मन शिव सं कल्यमातु' अर्थात् मेरा मन अच्छे संकल्प करने वाला हो। बुद्धि को तो मेधावी बनाने की प्रार्थना की गई है, ताकि जटिल से जटिल विषयो के सूक्ष्म से सूक्ष्म बिन्दु उसकी पकड़ मे तुरन्त आ जाए, पर मन? वह शिव सकल्प वाला हो, मन में अच्छे विचार आएंगे तो व्यक्ति अच्छे काम करेगा, बुरे विचार आएंगे तो बुरे काम करेगा। 'यन्मनसा ध्यायते तद् वदति पद् वाचा वदति तद् कमणा करोति।" मन, वचन, कर्म की अन्तरंग मित्रता यही तो है।

हमारे यहां की परम्परा में संस्थागत औपचारिक शिक्षा के लिए जिस संस्था "गुरुकुल" का विकास किया गया, उसका ढाचा ही इस प्रकार का था कि औपचारिक-अनौपचारिक का पार्थक्य सम्भव था ही नहीं, वे परस्पर अनुपूरक बन गए थे। इस शिक्षा प्रणाली के मूल तत्व निम्नांकित माने जा सकते है।

- गुरु और शिष्य का व्यक्तिगत आध्यात्मिक सम्बन्ध
- सत्य पत, दम, शम आदि साधनों द्वारा चरित्र का निर्माण
- स्वाध्याय, जिसमें व्यक्ति, नारद के शब्दों में "मंत्र-विद भी बने और आत्मविद" भी।

स्पष्ट है कि इस प्रणाली का उद्देश्य सूचनाएं प्रदान करना नहीं, व्यक्ति का निर्माण करना था। शिक्षा की इस प्रकार की व्यवस्था का ही यह परिणाम था कि व्यक्ति को ऐसे संस्कार मिलते थे, जो उसके आचरण को नैतिकता के सांचे मे ढाल देते थे।

वर्तमान विद्यालय यदि नैतिक गुणों का विकास नही कर रहे है, सुसस्कृत व्यक्तित्व का निर्माण नहीं कर रहे, तो इसमें आश्चर्य की क्या बात? आश्चर्य तो तब होता, जब स्थिति इससे विपरीत होती। औपचारिक "शिक्षा" के वर्तमान केन्द्रों का गठन ही सूचनाए प्रदान करने के लिए किया गया था, पर इस तथ्य पर ध्यान दिए बिना हम विभिन्न आयोगो व समितियों आदि का गठन करते चले आ रहे हैं। इन आयोगों, समितियों आदि ने शिक्षा पर विचार किया, सबने समस्या के मूल में गए बिना निष्कर्ष निकाल लिए। कॉमन स्कूल सिस्टम की सिफारिश करके कोठारी कमीशन ने अवश्य एक क्षेत्र मे समस्या को मूल के पास से पकड़ने का प्रयास किया, पर फटे कम्वल को बदलने की बजाए पैबन्द से काम चलाने की अभ्यस्थ सरकार को वह पसन्द ही नही।

कम्बल तार-तार हुआ जा रहा है, पर हम उसे बडे लाट साहब का तोहफा मानकर सहेजने-संवारने की कोशिश मे ही लगे हैं। ऊपर से मन को दिलासा देने के लिए यह टिप्पणी और कर देते है कि सारी दुनिया की हालत खराब है, हम तो वैसे ही पिछड़े हुए है, गरीब है। विद्वानों का मानना है कि गरीब होना उतना बुरा नही, जितना बुरा है गरीबी का भाव, क्योंकि विचारो में गरीबी आ जाने पर व्यक्ति सद्-असद्, भले-बुरे, उचित-अनुचित का विवेक खो बैठता है। यह हमारा दुर्भाग्य ही है कि विचारों मे अकिचनत्व घुसता चला गया है। परिणामतः उस नई सभ्यता का जन्म हुआ है, जिसमें हर चीज का मूल्य धन व अर्थ की भाषा में आंका जाता है क्योकि गरीबी तो धन से ही दूर हो सकती है और सारा समाज अर्थ को, केवल अर्थ को, जीवन का चरम लक्ष्य मानकर आचरण करने लगता है। अध्यापन को भी सामान्य व्यवसाय मान लिया गया है। अध्यापन का व्यवसाय मानते ही, इससे सम्बद्ध प्रत्येक वस्तु को अर्थ की तराजू में तोला जाने लगा है। मेरा मानना है कि सारी बुराइयों की जड़ यही है। अध्यापन कार्य को विद्या दान कहा गया है। मनुस्मृति के अनुसार, "सर्वेक्षामेव दानानां ब्रह्मदान विशिष्यते", यह दान सब प्रकार के दानो में श्रेष्ठ है। दान वही दे सकता है, जिसके पास बहुत कुछ हो, तो देने की वृत्ति भी हो। जिसने रट रटाकर या बिना रटे दूसरे हथकंडों से किसी प्रकार परीक्षा उत्तीर्ण कर ली, उस युवक को हम अध्यापक बना देते हैं। लेकिन जब उसके पास कुछ दे सकने योग्य इक्ट्ठा हो पाता है, जब उसकी वृत्ति दान देने

की बनने लगती है, तब हम उससे कह देते हैं कि अब आप काम के नहीं रहे आपको रिटायर किया जाता है। वर्तमान स्थिति कितनी भी खराब है, असाध्य नहीं है, इसे सुधारा जा सकता है। मैं इस सन्दर्भ मे भावी नवयुवकों, शिक्षाविदो व शिक्षा के क्षेत्र से जुडे हुए लोगो से प्रार्थना करूंगा कि वे अपनी भूमिका को समझें तथा सामाजिक विघटन को रोकने का प्रयास करे, क्योकि वे भी समाज के सदस्य है और सामाजिक विघटन अगर इसी गति से चलता रहा, तो इस समाज में किसी का भी जीवन सुरक्षित नही रह पाएगा। इस विघटन को रोकने का सबसे सशक्त साधन विद्यालय है। विद्यालय का आश्य भवनो से नही, वरन, वहा के वातावरण से है और वातावरण का निर्माणकर्ता शिक्षक है। अत. शिक्षक सामाजिक विघटन को अगर चाहे तो रोक सकते है और उसका सहज व आसान तरीका बालकों को सुसस्कृत तथा सस्कारित बनाना है। इसके लिए शिक्षक को स्वय मे तथा विद्यालय परिवेश में निम्नाकित सुधार करने होंगे।

शिक्षक को शिक्षण व्यवसाय अपनाते समय अपनी इच्छा व रुचि की परख कर लेनी चाहिए कि क्या वे इस व्यवसाय को पसन्द करते हैं अथवा केवल पैसा अर्जन करने के लिए चुन रहे हैं। अगर भाग्य से शिक्षण व्यवसाय मिल गया है, तो उसके कर्तव्यों व उत्तरदायित्वो को निष्ठा से पूर्ण करना चाहिए क्योंकि अगर समाज विघटित हो जाएगा तो वे और उनके परिवार भी सुरक्षित नही बचेंगे। अत. विद्यालय को अपना परिवार तथा छात्रों को अपना बच्चा समझकर शिक्षा दे तथा सस्कार व नैतिकता का निर्माण करे।

शिक्षक आचरण भी विद्यालय परिवेश को बनाने व बिगाडने मे महत्वपूर्ण भूमिका निभाता है, अतः शिक्षक जिस तरह अपने घर मे अपने बच्चों को सुसस्कृत व संस्कारित खोटा सिक्का खरे सिक्के को प्रचलन से हटा देता है, इसी प्रकार असली शिक्षा की जगह यह नकली शिक्षा ही असली शिक्षा मान ली गई। इसी के साथ फिर अनिवार्यता लोगों की दृष्टि में शिक्षा का उद्देश्य भी बस नौकरी पाना हो गया। समय बीतने के साथ अब यह परिणाम प्राप्त हो रहा है कि शिक्षा अर्थात् "नौकरी"। नौकरी से भिन्न भी शिक्षा का कोई प्रयोजन हो सकता है, अर्थ हो सकता है, यह आज सामान्य पढ़े-लिखे व्यक्ति के लिए अबूझ पहेली बन गई है।

भारतीय परम्परा मे व्यक्ति की शिक्षा माता, पिता और शिक्षक तीनो का समन्वित उत्तरदायित्व माना गया है। शतपथ ब्राह्मण ग्रन्थ के अनुसार—मातृमान पितृमान, आचार्यमान पुरुषों वेद। माता, पिता और आचार्य तीनों जब अपने कर्तव्यों का यथावत पालन करते हैं, तभी सन्तान योग्य बनती है। भारतीय सस्कृति में मनुष्य के रूप में जन्म लेने वाले प्राणी को सच्चे अर्थो मे मनुष्य बनाने के लिए संस्कार आवश्यक बताए गए हैं। सस्कार से तात्पर्य किसी वस्तु के रूप को बदल देना, उसे नया रूप प्रदान करना है। चरक ऋषि ने कहा है, "संस्कार हि गुणान्तराधानमचाते"। पहले से विद्यमान दुर्गुणो को हटाकर उनकी जगह सद्गुणों की स्थापना कर देने का नाम ही सस्कार है। इस दृष्टि से सस्कार मानव के नव निर्माण की योजना है— "जन्मना जाएते शुद्रः संस्कारत द्विज उच्यते"। जन्म से सब शूद्र होते हैं, सस्कार उन्हें द्विज बनाते हैं। भारतीय ऋषियो का मानना है कि जब मां बच्चे को गोद मे खिला रही होती है तब उस पर जो संस्कार पडते है, वे जीवनपर्यन्त साथ रहते हैं, मिटाए नहीं जा सकते। स्वामी दयानन्द के अमर ग्रन्थ "सत्यार्थ प्रकाश" के दूसरे अध्याय 'सम्मुलाल' का प्रारम्भ करते हुए जब उन्होने लिखा, "अद्य शिक्षा प्रवक्ष्याम" तो इसमें बालक की शिक्षा का प्रारम्भ गर्भाधान से माना है। आधुनिक मनोवैज्ञानिकों का मानना है कि बाल्यावस्था के प्रारम्भिक छह वर्ष जीवन के निर्माण वर्ष होते हैं, बालक आगे चलकर क्या बनेगा, कैसा बनेगा, इसकी नींव इस अवधि में पड़ जाती है। मात्र बौद्धिक या सवेगात्मक दृष्टि से नहीं, चारित्रिक, मानसिक, शारीरिक, आदि सभी दृष्टियो से यह अत्यन्त महत्वपूर्ण वर्ष है। प्राचीन भारतीय परम्परा में जीवन के इन स्वर्णिम वर्षो की शिक्षा का दायित्व जहां मां पर डाला गया, वहां आधुनिक विधान व समाज व्यवस्था यह दायित्व विद्यालयी शिक्षक पर डाल रहे हैं।

माता-पिता से बालक को जो शिक्षा मिलती है, उसे आधुनिक शिक्षा शास्त्र की पारिभाषिक शब्दावली मे 'अनौपचारिक' शिक्षा कहा जाता है, जबकि हम इस भ्रान्ति का शिकार हैं कि बाल्यावस्था की सार्थकता 'औपचारिक' शिक्षा में है। हम भूल जाते हैं कि औपचारिक शिक्षा की पकड़ बुद्धि पर होती है, जबकि अनौपचारिक बनाने हेतु व्यवहार करते है उसी तरह का व्यवहार उन्हे विद्यालय तथा समाज में प्रदर्शित करना चाहिए।

विद्यालय मे छात्र के केवल ज्ञानात्मक पक्ष का ही नहीं, अपितु भावात्मक तथा क्रियात्मक पक्ष का भी मूल्याकन किया जाना चाहिए, जिससे पता चलता रहे कि जो समाज के भविष्य निर्माता है, उनमें किस प्रकार के सस्कार और सस्कृति विकसित हो रहे हैं तथा उनमें किस प्रकार का सुधार किया जा सकता है।

छोटी-छोटी कक्षाओ के छात्र ही इस समाज व देश के भविष्य निर्माता हैं, अत. इनको जिस प्रकार की शिक्षा दी जाएगी, उसी प्रकार का उच्चारण सीख लेंगे, अर्थ की प्रधानता बताई जाएगी तो अर्थ प्राप्त करने हेतु येन-केन-प्रकारेण धन अर्जन करने का प्रयास करेंगे, अत' उन्हे बाल्यकाल से ही चरित्र की प्रधानता का ज्ञान कराया जाए तो समाज का विघटन रोका जा सकता है।

बाल्यकाल से ही बालक अनुकरण द्वारा सीखते रहते हैं, अत शिक्षक को आदर्श आचरण तथा व्यवहार छात्रो के सम्मुख प्रस्तुत करना चाहिए। अर्थ की प्रधानता आचरण व व्यक्तित्व तथा बोलचाल में कहीं भी झलकना नही चाहिए। विषय-वस्तु पर शिक्षक का पूर्ण अधिकार होना चाहिए। विषय-वस्तु का प्रस्तुतीकरण व शिक्षक आचरण मे समानता होनी चाहिए। प्राकृतिक घटनाओ तथा क्रियाओं के अनुरूप छात्र व्यवहार को प्रदर्शित करने का बोध कराना चाहिए। छात्र शिक्षक में केवल औपचारिक शिक्षा सबध न हो, बल्कि अनौपचारिक शिक्षा सबंध भी बनाया जाना चाहिए। छात्रों के ज्ञानात्मक पक्ष के मूल्याकन के साथ-साथ, भावात्मक व क्रियात्मक पक्ष के मूल्यांकन पर भी ध्यान दिया जाना चाहिए। छात्रों मे आत्मचेतना, आत्म-मूल्यांकन, स्व-बोध, इत्यादि तथ्यो का ज्ञान व मूल्यांकन किया जाना चाहिए। उपरोक्त क्रियाओं द्वारा समाज के बढ़ते हुए सामाजिक विघटन को रोका जा सकता है तथा समाज की दिशा निर्धारित की जा सकती है। ☐☐

शिक्षा संकाय

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सेवाकालीन अध्यापकों पर दूरस्थ माध्यम से प्राप्त प्रशिक्षण के प्रभाव का अध्ययन

❑ मुबारक खान

दोनों स्तरों पर प्रशिक्षण प्राप्त अध्यापकों के व्यवहार पर प्रशिक्षण का प्रभाव पड़ रहा है। प्रशिक्षण उनकी व्यावसायिक दक्षता को बढ़ाने में सहायक हुआ है तथा सेवा से संबंधी आवश्यकताओं पर भी सकारात्मक रूप से प्रशिक्षण प्रभावकारी हुआ है। अतः पत्राचार प्रशिक्षण कार्यक्रम के उद्देश्यों की पूर्ति भी हो रही है। प्रशिक्षण पाठ्यक्रम की अध्यापकों के लिए व्यावहारिक उपयोगिता पाई गई। मुक्त शिक्षा प्रणाली के एक अंग के रूप में प्रशिक्षण के कई सकारात्मक पक्ष सामने आए हैं, इससे दूरस्थ शिक्षा माध्यम से प्रशिक्षण प्रदान करने के उद्देश्यों की पूर्ति हो रही है।

शिक्षा बेहतर भविष्य के लिए गत्यात्मक परिवर्तन का स्रोत है। आधुनिक युग में बिना विकास की प्रक्रिया को शामिल किए पेशागत विकास संभव नहीं है। इस पवित्र पेशे को सतत् शिक्षा द्वारा परिवर्तित समय की चुनौतियो को हल करना है। शैक्षिक व सामाजिक विकास मे इसकी अहम् भूमिका है। जीवन के हर क्षेत्र में उपयुक्त प्रकार के नागरकों का निर्माण करना ही इस प्रणाली की परम विशेषता है। यह जीवन के सामाजिक व सांस्कृतिक स्तर को भी समृद्ध बनाकर राष्ट्रीय क्षेत्र मे गुणात्मक सुधार लाती है।

सेवाकालीन शिक्षा अध्यापकों को परिवर्तनों का सामना करने तथा उनसे लाभ उठा पाने के योग्य बनाने हेतु तैयार करती है। यह शिक्षा उन्हें नवीन चिन्तन करने के लिए योग्यता प्रदान करती है, साथ ही नवीन विचारो को सतत् तथा रचनात्मक रूप मे प्रयुक्त करने के योग्य बनाती है। अध्यापक तैयार करने से सबंधी प्रशिक्षण प्राप्त करना, इसे हम सेवा-पूर्व शिक्षा कहते हैं। दूसरा, अपनी अध्यापकीय सेवा के दौरान जब अध्यापक अपनी व्यावसायिक प्रगति हेतु सेवाकालीन प्रशिक्षण मे सम्मिलित होता है, उसे सेवाकालीन अध्यापक शिक्षा कहते हैं।

सेवाकालीन अध्यापक शिक्षा अध्यापकों मे नवीन अन्तर्दृष्टि, प्रगति, समझ व बोध उत्पन्न करती है तथा उन्हें जीवन के हर क्षेत्र मे सुधार हेतु प्रेरित करती है। इसके अतिरिक्त, सेवाकालीन अध्यापक शिक्षा ज्ञान को तरोताजा करती है, अनुभवों को नवीन बनाती है, व्यापक दृष्टिकोण विकसित करती है, उत्साहित करती है तथा नवीन पद्धतियों व पदार्थो/सामग्रियो से परिचित कराती है जो हमारी शिक्षा प्रणाली मे समाहित हो रहे है।

अध्ययन की आवश्यकता

मध्य प्रेदश में बी.एड. और बी.टी.सी. स्तर पर दूरस्थ शिक्षा के संगठन का एक अग्रगामी निर्णय है। मध्य प्रदेश में प्राथमिक तथा माध्यमिक स्तर की शालाओ मे कार्यरत अप्रशिक्षित अध्यापको की संख्या अधिक है। शासन द्वारा निर्णय लिया गया है कि समस्त अप्रशिक्षित अध्यापकों को पत्राचार पाठ्यक्रम के माध्यम से प्रशिक्षित

किया जाए। अतः शासन के निर्णयानुसार माध्यमिक शिक्षा मण्डल, भोपाल द्वारा वर्ष 1990-91 से द्विवर्षीय पत्राचार पाठ्यक्रम मे प्रशिक्षण की व्यवस्था की गई। बी.एड. स्तर पर भोपाल विश्वविद्यालय द्वारा दूरस्थ माध्यम से सेवाकालीन प्रशिक्षण कार्यक्रम सचालित था, जो वर्ष 1995-96 से स्थगित कर दिया गया। राज्य में प्राथमिक व माध्यमिक स्तर पर सभी पूर्ववर्ती अप्रशिक्षित अध्यापकों को प्रशिक्षित करने का एकीकृत प्रयास किया गया। अतः यह प्रश्न उठाना उपयुक्त होगा कि जिन उद्देश्यों को ध्यान मे रखकर सेवाकालीन अध्यापकों ने इन प्रशिक्षण कार्यक्रमों में प्रवेश लिया, उन उद्देश्यो की पूर्ति हुई या नहीं। किसी भी प्रशिक्षण कार्यक्रम की उपादेयता को सहभागियों पर उसके द्वारा पड़ने वाले प्रभाव से नापा जा सकता है। वस्तुत प्रशिक्षण शैक्षिक प्रयोगों के विकास से प्रत्यक्ष जुडा है। यह अध्ययन करना उपयुक्त होगा कि दूरस्थ शिक्षा प्रणाली के उत्पादो में प्रशिक्षणार्थियों के लिए व्यावहारिक प्रशिक्षण की उपयोगिता है या नहीं। इस संदर्भ में राज्य स्तरीय परिप्रेक्ष्य में अध्यापक शिक्षा के लिए अध्ययन करने का महत्व व औचित्य है। दूरस्थ शिक्षा के तात्कालिक व दीर्घकालिक प्रभाव ज्ञात करने की दृष्टि से अनेक अध्ययन किए गए हैं। बुटाला (1987) ने पाया कि सेवाकालीन प्रशिक्षण अध्यापको के व्यावसायिक विकास व वृद्धि में सहायक हुए है। साहू व खान (1998) ने पाया कि दूरस्थ शिक्षा के सेवाकालीन अध्यापक प्रशिक्षण कार्यक्रम का सकारात्मक प्रभाव अग्रलिखित क्षेत्रो मे पाया गया। छात्रों के व्यवहार को समझने मे कक्षा शिक्षण के व्यवस्थित प्रबंधन में तथा शिक्षण व मूल्यांकन मे विभिन्न तकनीकी विधियों के सही प्रयोग में, बिसवाल (1979), पाण्डे (1980), दत्त (1988) व यादव व शर्मा (1988) ने पाया कि पत्राचार पाठ्यक्रमों मे परीक्षा परिणामो में सफलता की प्रतिशत् दर उच्च रहती है।

उद्देश्य

- बी एड स्तर का सेवाकालीन प्रशिक्षण प्राप्त अध्यापको के प्रशिक्षण पाठ्यक्रम मे प्रवेश लेने के उद्देश्यो का अध्ययन करना।
- बी.टी.सी. स्तर का सेवाकालीन प्रशिक्षण प्राप्त अध्यापकों के प्रशिक्षण मे प्रवेश लेने के उद्देश्य का अध्ययन करना।
- बी एड स्तर का सेवाकालीन प्रशिक्षण प्राप्त अध्यापको के व्यवहार पर प्रशिक्षण में पड़ने वाले प्रभाव का अध्ययन करना।
- बी टी.सी. स्तर का सेवाकालीन प्रशिक्षण प्राप्त अध्यापको के व्यवहार पर प्रशिक्षण से पड़ने वाले प्रभाव का अध्ययन करना।

जनसंख्या व न्यादर्श

म.प्र. जिला शिक्षा व प्रशिक्षण संस्थानों तथा शिक्षा महाविद्यालयो से वर्ष 1992-1994 तक पत्राचार सेवाकालीन प्रशिक्षण प्राप्त कर चुके अध्यापक इस अध्ययन की जनसंख्या थे। बी एड. स्तर के 60 सेवाकालीन प्रशिक्षण प्राप्त अध्यापक तथा बी टी.सी. स्तर के 75 सेवाकालीन प्रशिक्षण प्राप्त अध्यापक इसका न्यादर्श थे। कुल 135 अध्यापक जिन्होंने अध्ययन केन्द्र इन्दौर, खण्डवा, जबलपुर तथा उज्जैन से प्रशिक्षण प्राप्त किया।

उपकरण

शोधकर्ता द्वारा एक प्रश्नावली का निर्माण किया गया। प्रश्नावली निर्माण प्रक्रिया मे 8 अध्यापकों से अनौपचारिक साक्षात्कार लिया, साक्षात्कार से प्राप्त विचारो के बाद पदो का निर्माण किया गया। अन्त मे प्रश्नावली को एक विशेषज्ञ से सुधार करवाकर प्रश्नावली को अन्तिम रूप दिया गया।

प्रदत्त संकलन प्रक्रिया

विभिन्न विद्यालयो का निरीक्षण कर प्रश्नावली को न्यादर्श मे प्रशासित किया गया।

तालिका 1 से स्पष्ट है कि बी.एड. स्तर का प्रशिक्षण प्राप्त सर्वाधिक (81 66 से 91.66 प्रतिशत्) अध्यापको के पत्राचार पाठ्यक्रम मे प्रवेश लेने के उद्देश्य अग्रलिखित

तालिका 1

सेवाकालीन प्रशिक्षण प्राप्त अध्यापकों के प्रशिक्षण पाठ्यक्रम मे प्रवेश लेने के उद्देश्य (प्रतिशत् में)

	पाठ्यक्रम में प्रवेश लेने के उद्देश्य	बी एड		बी टी.सी.	
		एफ	प्रतिशत्	एफ	प्रतिशत्
1	शिक्षण प्रवीणता के विकास हेतु	52	(86.66)	51	(68)
2.	शिक्षण में विभिन्न माध्यम, विधियों और तकनीकी के उन्नत प्रयोग हेतु	38	(63.33)	50	(66 66)
3.	शैक्षिक मूल्यों के विकास हेतु	45	(75)	43	(57.33)
4.	सहायक शिक्षण सामग्री के उचित प्रस्तुतीकरण हेतु	43	(71 66)	49	(65 33)
5	छात्रो के मनोविज्ञान को जानने के लिए	49	(81.66)	46	(61 33)
6	विद्यालयीय शिक्षा की सामाजिक पृष्ठभूमि	55	(91.66)	38	(50.66)
7	विद्यालय की गतिविधियो के संगठन व प्रबध के लिए विभिन्न कौशलों की प्राप्ति हेतु	52	(86.66)	45	(60)
8.	सही मूल्यांकन प्रविधियो के ज्ञान और कौशलों की प्राप्ति हेतु	45	(75)	45	(60)
9	सेवा मे पदोन्नति हेतु	40	(66.66)	47	(62.66)
10.	सेवा में स्थानान्तरण हेतु	42	(70)	38	(50.66)
11.	अतिरिक्त वेतन वृद्धि हेतु	49	(81.66)	41	(54.66)
12.	अन्य प्रशिक्षित शिक्षको के समान समाज में स्तर बनाने हेतु	44	(73 33)	39	(52)
13.	अन्य कोई	–	–	–	–
		एन - 60		एन - 75	

थे जैसे– सर्वाधिक (91.66 प्रतिशत्) विद्यालयी शिक्षा की सामाजिक पृष्ठभूमि को जानने के लिए, (86.66 प्रतिशत्) विद्यालय की गतिविधियो के संगठन व प्रबंधन के लिए विभिन्न कौशलो की प्राप्ति हेतु तथा शिक्षण प्रवीणता के विकास के लिए, (81.66 प्रतिशत्) छात्रों के मनोविज्ञान व अतिरिक्त वेतन वृद्धि के लिए।

इसी प्रकार बी.टी.सी. स्तर का प्रशिक्षण प्राप्त अधिकांश (60 से 68 प्रतिशत्) अध्यापको के पत्राचार पाठ्यक्रम मे प्रवेश लेने के उद्देश्य अग्रलिखित थे जैसे– अधिकांश (68 प्रतिशत्) शिक्षण प्रवीणता के विकास हेतु, (66.66 प्रतिशत्) शिक्षण मे विभिन्न माध्यम, विधियों और तकनीकी के उन्नत प्रयोग हेतु, (65.33 प्रतिशत्) सहायक शिक्षण सामग्री के उचित प्रस्तुतीकरण हेतु,

(62 66 प्रतिशत्) सेवा पदोन्नति हेतु, (61.33 प्रतिशत्) छात्रों के मनोविज्ञान को जानने हेतु, (60 प्रतिशत्) विद्यालय की गतिविधियो के संगठन व प्रबंध के लिए विभिन्न कौशलों की प्राप्ति हेतु व सही मूल्याकंन प्रविधियों के ज्ञान और कौशलों की प्राप्ति हेतु।

अत. यह कहा जा सकता है कि बी एड स्तर के सर्वाधिक अध्यापको ने विद्यालयी शिक्षा की सामाजिक पृष्ठभूमि को जानने के उद्देश्य को प्राथमिकता दी तथा बी टी.सी. स्तर के सर्वाधिक अध्यापकों ने शिक्षण प्रवीणता को बढाने के उद्देश्य को प्राथमिकता दी।

तालिका 2
सेवाकालीन प्रशिक्षण अध्यापकों के व्यवहार पर प्राप्त प्रशिक्षण से पड़ने वाले प्रभाव की सीमा (काई वर्ग व प्रतिशत्)

प्रभाव	*बी एड*					*बी.टी.सी.*				
	1	*2*	*3*	*4*	*5*	*1*	*2*	*3*	*4*	*5*
1 शिक्षण प्रवीणता में विकास हुआ है	21 (36 20)	32 (55.17)	5 (8 63)	58 (100)	17 6 **	22 (37.93)	34 (58 62)	2 (3 45)	58 (100)	25 88 **
2. शिक्षण मे विभिन्न माध्यम, विधियो और तकनीकी के उन्नत प्रयोग हो रहे है।	17 (29 82)	19 (33 33)	21 (36 85)	57 (100)	0 25 सा न	24 (44 44)	27 (50)	3 (5 56)	54 (100)	17.38 **
3. शैक्षिक मूल्यो का विकास हुआ है	22 (41.50)	27 (50.95)	4 (7 55)	53 (100)	15 06 **	17 (32 69)	33 (63 46)	2 (3 85)	52 (100)	25 97 **
4 सहायक शिक्षण सामग्री का उचित प्रस्तुतीकरण हो रहा है	21 (36 21)	29 (50)	8 (13 79)	98 (100)	10 49 **	20 (38.36)	29 (55 77)	3 (5 77)	52 (100)	18.50 **
5. छात्रो के मनोविज्ञान को जाना जा रहा है	18 (31.57)	27 (47 37)	12 (21 06)	57 (100)	5 20 सा.न.	19 (39.58)	27 (56 25)	2 (41.07)	48 (100)	18.68 **
6. विद्यालयीन शिक्षा की सामाजिक पृष्ठभूमि को जाना गया है	23 (39.68)	28 (48.28)	7 (12 07)	58 (100)	11.21 5*	15 (35.71)	24 (57.14)	3 (7.15)	42 (100)	14.34 **
7 विद्यालय की गतिविधियों	20 (37 03)	32 (59 06)	2 (3.719)	54 (100)	23.6 **	18 (36)	28 (56)	4 (8)	50 (100)	15.96 **

प्रभाव	बी.एड.					बी.टी.सी				
	1	2	3	4	5	1	2	3	4	5
के सगठन व प्रबंध के लिए विभिन्न कौशलों की प्राप्ति हुई है										
8 सही मूल्याकन प्रविधियों के ज्ञान और कौशलो की प्राप्ति हुई है	17 (34)	29 (58)	4 (8)	50 (100)	17.29 **	17 (36 96)	27 (58 69)	2 (4.35)	46 (100)	18 96 **
9. सेवा मे पदोन्नति हुई है	15 (35.72)	25 (59 52)	2 (4.76)	42 (100)	17.34 **	20 (40 82)	26 (53 06)	3 (6.12)	49 (100)	15 84 **
10 सेवा मे स्थायीकरण हुआ है	17 (34.69)	29 (59 18)	3 (6.13)	49 (100)	19 15 **	14 (34 14)	22 53.66)	5 (13)	41 (100)	9.37 **
11 अतिरिक्त वेतन वृद्धि हुई है	22 (42 30)	28 (53.85)	2 (3 85)	52 (100)	19.66 **	17 (40.48)	22 (52 38)	3 (7 14)	42 (100)	12.34 **
12. अन्य प्रशिक्षण शिक्षको के समान समाज में स्तर निर्मित हुआ है	24 (45.28)	27 (50 94)	2 (3.78)	53 (100)	19 36 **	19 (44.19)	21 (48.83)	3 (6 98)	43 (100)	12 05 **
13. अन्य कोई	-	-	-	-	-	-	-	-	-	-
					एन- 60				एन-75	

कोष्ठक मे लिखी संख्या प्रतिशत् है।

** 0.01 स्तर पर सार्थक, *0 05 स्तर पर सार्थक, सा न. सार्थक नही।

1. अधिक सीमा तक, 2 कुछ सीमा तक, 3. बिल्कुल नही, 4 योग तथा 5 काई वर्ग मूल्य।

तालिका 2 को देखने से स्पष्ट होता है कि काई वर्ग मूल्य का मान बी एड. स्तर की दो अनुक्रियाओ (सी. और ई.) को छोड़कर, सभी अनुक्रियाओं पर 0.01 स्तर व 2 स्वतन्त्रता के अंश पर सार्थक है।

तालिका से स्पष्ट है कि बी एड. स्तर के प्रशिक्षण प्राप्त अधिकांश (50.94 से 59 52 प्रतिशत्) अध्यापको के व्यवहार पर प्राप्त प्रशिक्षण का कुछ सीमा तक प्रभाव पड़ा है जैसे– अधिकांश (59.52 प्रतिशत्) उत्पाद प्रशिक्षणार्थियों की सेवा मे पदोन्नति हुई है, (59.26 प्रतिशत्) विद्यालय की गतिविधियो के सगठन व प्रबधन के लिए विभिन्न कौशलों की प्राप्ति हुई है, (59.18 प्रतिशत्) सेवा में स्थायीकरण हुआ है, (58 प्रतिशत्) सही मूल्याकन प्रविधियों के ज्ञान और कौशलो की प्राप्ति हुई है। (55.17 प्रतिशत्) शिक्षण प्रवीणता में विकास हुआ है, (50.95 प्रतिशत्) शैक्षिक मूल्यो में विकास हुआ है, (50.94 प्रतिशत्) अन्य प्रशिक्षित शिक्षकों के समान

समाज में स्तर निर्मित हुआ है तथा (50 प्रतिशत्) उत्पाद प्रशिक्षणार्थी सहायक शिक्षण सामग्री का उचित प्रस्तुतीकरण कर रहे हैं।

तालिका से यह भी स्पष्ट है कि बी टी सी. स्तर के प्रशिक्षण प्राप्त अधिकाश (50 से 63 46 प्रतिशत्) अध्यापकों के व्यवहार पर प्राप्त प्रशिक्षण का कुछ सीमा तक प्रभाव पड़ा है जैसे-- अधिकांश (63.46 प्रतिशत्) उत्पाद प्रशिक्षणार्थियों मे शैक्षिक मूल्यों का विकास हुआ है, (58.69 प्रतिशत्) को सही मूल्यांकन प्रविधियों के ज्ञान और कौशलो की प्राप्ति हुई है, (58.62 प्रतिशत्) में शिक्षण प्रवीणता मे विकास हुआ है, (57.14 प्रतिशत्) द्वारा विद्यालयीन शिक्षा की समाजिक पृष्ठभूमि को जाना गया है, (56.25 प्रतिशत्) छात्रों के मनोविज्ञान को जाना जा रहा है, (55.77 प्रतिशत्) सहायक शिक्षण सामग्री का उचित प्रस्तुतीकरण हो रहा है, (53.66 प्रतिशत्) का सेवा मे स्थायीकरण हुआ है, (53 06 प्रतिशत्) का सेवा में पदोन्नति हुई है, (52 38 प्रतिशत्) अतिरिक्त वेतन वृद्धि हुई है तथा (50 प्रतिशत्) उत्पाद प्रशिक्षणार्थी शिक्षण में विभिन्न माध्यम, विधियों और तकनीकी का प्रयोग कर रहे हैं।

परिणाम व विवेचन

बी.एड स्तर का प्रशिक्षण प्राप्त करने वाले अध्यापकों पर प्रशिक्षण का कुछ सीमा तक प्रभाव देखा गया है। अधिकांश अध्यापको की सेवा मे पदोन्नति हुई, विभिन्न कौशलों की प्राप्ति हुई, सेवा में स्थायीकरण हुआ तथा शिक्षण प्रवीणता मे विकास हुआ। बी.टी.सी. स्तर का प्रशिक्षण प्राप्त करने वाले अध्यापको पर भी प्रशिक्षण का कुछ सीमा तक प्रभाव देखा गया। बी टी सी स्तर के अधिकाश अध्यापकों मे शैक्षिक मूल्यों का विकास हुआ, विद्यालयीन शिक्षा की सामाजिक पृष्ठभूमि को जाना गया, छात्रों के मनोविज्ञान को जाना जा रहा है। सहायक सामग्री का उचित प्रस्तुतीकरण हो रहा है, सेवा मे स्थायीकरण, पदोन्नति व अतिरिक्त वेतन वृद्धि हुई है। अत दूरस्थ शिक्षा आधारित सेवाकालीन प्रशिक्षण का सकारात्मक प्रभाव अध्यापकों के व्यवहार पर पड रहा है।

निष्कर्ष

दोनों स्तरों का प्रशिक्षण प्राप्त अध्यापको के व्यवहार पर प्रशिक्षण का प्रभाव पड़ रहा है। प्रशिक्षण उनकी व्यावसायिक दक्षता को बढाने में सहायक हुआ है तथा सेवा से सबधी आवश्यकताओं पर भी सकारात्मक रूप से प्रशिक्षण प्रभावकारी हुआ है। अत. पत्राचार प्रशिक्षण कार्यक्रम के उद्देश्यों की पूर्ति हो रही है। प्रशिक्षण पाठ्यक्रम की अध्यापको के लिए व्यावहारिक उपयोगिता पाई गई। मुक्त शिक्षा प्रणाली के एक अग के रूप मे प्रशिक्षण के कई सकारात्मक पक्ष सामने आए है, इससे दूरस्थ शिक्षा माध्यम से प्रशिक्षण प्रदान करने के उद्देश्यों की पूर्ति हो रही है। ▢▢

जन शिक्षाकेन्द्र, चोरल
इन्दौर, म.प्र.

शहरी और ग्रामीण क्षेत्र के विद्यार्थियों में मानवाधिकारों के प्रति जागरूकता का अध्ययन

❑ प्रेम छाबड़ा
❑ प्रेमलता पारेख

मानव अधिकार प्रत्येक मनुष्य के लिए परम् आवश्यक हैं, लेकिन समाज का जो वर्तमान स्वरूप है तथा उसमें जिस प्रकार की अराजकता है उसने चिंतकों के समक्ष एक गम्भीर प्रश्न खड़ा कर दिया है। मानव के समक्ष सबसे बड़ा संकट है मानव का अमानवीय हो जाना। आमतौर पर देखा जाता है कि शहरी क्षेत्रों की अपेक्षा ग्रामीण क्षेत्रो में मानवाधिकारों का हनन अधिक होता है क्योंकि ग्रामीण क्षेत्रों में रहने वाले व्यक्तियों को मानव आधिकरों का ज्ञान नहीं रहता है। इस कारण ग्रामीण व्यक्तियों का गांव में अधिक शोषण होता है, उनसे खेतों में 8-8 घण्टे काम करवाया जाता है या बन्धुवा मजदूरों के रूप में काम करवाया जाता है, लेकिन उन व्यक्तियों को उनके कार्य का उचित वेतन नहीं दिया जाता है। इसी तरह, और भी कई घटनाएं देखने में आती हैं, जैसे 14 वर्ष के बालकों से कार्य करवाना भारतीय संविधान में दिए गए मौलिक अधिकारों (मानवाधिकार) के अनुसार अपराध है, फिर भी, उनसे कार्य करवाया जाता है। आए दिन नारी अपहरण, दहेज उत्पीड़न आदि घटनाएं देखने में आती हैं।

शताब्दियो से मानव जाति का इतिहास विकासशील रहा है, जिसमें मनुष्य ने मनुष्य को सहायता देकर मानवजाति को विकास के रास्ते से ऊपर उठाकर विकसित किया है। आज विज्ञान का युग है और विज्ञान के अनुसंधानो के कारण आवागमन के नवीनतम साधनो का विकास होने से सम्पूर्ण विश्व समीपता मे सिमट गया है। आज प्रत्येक राष्ट्र किन्ही न किन्ही जाति, धर्म, क्षेत्रीयता, भाषा आदि से परे होकर सम्पूर्ण मानव जाति को एकता के सूत्र में बाधकर सामाजिक न्याय के आधार पर विकासोन्मुखी बनाने के लिए आतुर है। सामाजिक न्याय के लिए आवश्यक है कि प्रत्येक नागरिक को मानव अधिकार प्राप्त हो और इन्ही सिद्धान्तों के आधार पर मानवाधिकारों का स्रोत फूटा है।

इस प्रकार विश्व के सभी मानवो को समान अधिकार दिलाने के लिए सन् 1945 में सयुक्त राष्ट्र सघ की स्थापना हुई तथा उसका एक चार्टर तैयार किया गया। चार्टर के अनुच्छेद 68 के अन्तर्गत मानव अधिकारो के संरक्षण के लिए एक प्रारूप तैयार करने हेतु सन् 1946 में श्रीमती एलोमोर रूजवेल्ट की अध्यक्षता मे एक मानवाधिकार आयोग का गठन किया गया। आयोग ने जून 1948 में मानवाधिकारों की एक विश्वव्यापी घोषणा तैयार की तथा संयुक्त राष्ट्र संघ की महासभा द्वारा 10 दिसम्बर, 1948 को अंगीकृत किया गया। यही कारण है कि 10 दिसम्बर को सम्पूर्ण विश्व "मानव अधिकार दिवस" के रूप में

मानता है।

मानवाधिकार प्रत्येक मनुष्य के लिए परम आवश्यक है, लेकिन समाज का जो वर्तमान स्वरूप है तथा उसमें जिस प्रकार की अराजकता है, उसने चितकों के समक्ष एक गम्भीर प्रश्न खडा कर दिया है। मानव के समक्ष सबसे बड़ा सकट है मानव का अमानवीय हो जाना। आमतौर पर देखा जाता है कि शहरी क्षेत्रों की अपेक्षा ग्रामीण क्षेत्रो में मानवाधिकारो का हनन अधिक होता है। क्योकि ग्रामीण क्षेत्रों मे रहने वाले व्यक्तियो को मानवाधिकारो का ज्ञान नहीं रहता है, इस कारण ग्रामीण व्यक्तियों का गांव में अधिक शोषण होता है। उनसे खेतो मे 8-8 घण्टे काम करवाया जाता है या बन्धुवा मजदूरो के रूप मे काम करवाया जाता है, लेकिन उन व्यक्तियों को उनके कार्य का उचित वेतन नही दिया जाता है। इसी तरह और भी कई घटनाए देखने मे आती है, जैसे 14 वर्ष के बालकों से कार्य करवाना भारतीय संविधान में दिए गए मौलिक अधिकारों (मानवाधिकार) के अनुसार अपराध है, फिर भी, उनसे कार्य करवाया जाता है। आए दिन नारी अपहरण, दहेज उत्पीड़न आदि घटनाए देखने में आती हैं। इन घटनाओं से हम देश मे मानवाधिकारों की स्थिति का अनुमान सहज ही लगा सकते हैं कि गत वर्षो मे मानवाधिकारो का जितना उल्लघन हुआ, शायद पहले कभी हुआ हो।

उपकरण

विद्यार्थियों मे मानवाधिकारों की जागरूकता के प्रभावो का अध्ययन मानवाधिकार परीक्षण द्वारा किया गया। परीक्षण में 33 पद सम्मिलित हैं, जो मानवाधिकारों के 30 अनुच्छेदों से सबंधित है।

उपकरण, प्रशासन व अंकीकरण

विद्यार्थियों में मानवाधिकारो के प्रति जागरूकता का अध्ययन करने हेतु मानवाधिकार परीक्षण का प्रकाशन किया गया। 30 अनुच्छेदों के आधार पर 33 प्रश्न दिए गए व इस परीक्षण में लगने वाला समय 30 मिनट था। विद्यार्थी द्वारा इन परीक्षण में दी गई जानकारी सही होने पर एक अंक व जानकारी त्रृटिपूर्ण होने पर शून्य दिया गया। सही अंको का योग कर प्रदत्त एकत्रित किए गए।

प्रदत्तों का विश्लेषण व व्याख्या

उज्जैन क्षेत्र के विद्यालय तथा ग्रामीण क्षेत्र के दो विद्यालयो के विद्यार्थियों से मानवाधिकारो संबंधी जागरूकता का अध्ययन करने से निम्न प्रकार के आंकड़े प्राप्त हुए, जो तालिका के माध्यम से दर्शाए जा रहे है—

सारणी 1
परीक्षण पदों का बिन्दुवार वर्गीकरण

क्र.स.	*परीक्षण पद*	*पद*	*कुल पद*
1.	मानवाधिकार दिवस व मौलिक अधिकार	1, 2, 3, 4, 5, 6	
		7, 8, 9, 10	10
2.	मानवाधिकारो का संरक्षण व	1, 2, 3, 4, 5, 6	
	राष्ट्रीय बाल नीति	7, 8	08
3.	मानवाधिकार आयोग की स्थापना	1, 2, 3, 4, 5, 6,	06
4	मानवाधिकार आयोग के कार्य व	1, 2, 3, 4, 5, 6, 7	
	मानवाधिकारो के लिए शिक्षा	8, 9	09
		कुल पद	33

सारणी 2

शहरी व ग्रामीण क्षेत्र के विद्यार्थियो में मानवाधिकारों की जागरूकता का तुलनात्मक अध्ययन (प्रतिशत् में)

क्र. स.	विषय	सह जानकारी			त्रुटिपूर्ण जानकारी		
		शहरी	ग्रामीण	कुल योग	शहरी	ग्रामीण	कुलयोग
1.	मानवाधिकार दिवस व मौलिक अधिकार	45	40	85	05	10	15
2.	मानवाधिकार का सरक्षण व राष्ट्रीय बाल नीति	48	47	94	02	03	05
3.	मानवाधिकार आयोग की स्थापना	44	43	87	06	07	13
4	मानवाधिकार आयोग के कार्य व मानवाधिकारो के लिए शिक्षा	46	43	89	04	07	11
	औसत योग (प्रतिशत् मे)	45.75	43.25	89.00	4 25	6.75	11.00

परिणाम व निष्कर्ष

इस शोध के परिणाम निम्नलिखित है–

तालिका का बिन्दुवार विश्लेषण इस प्रकार है–

- मानवाधिकार दिवस व मौलिक अधिकार के संबंध मे शहरी क्षेत्र के विद्यार्थियो मे 45 प्रतिशत् जागरूकता तथा ग्रामीण क्षेत्र के विद्यार्थियो में 40 प्रतिशत् जागरूकता देखी गई है अर्थात् दोनो क्षेत्रो में विद्यार्थियो में कुल जागरूकता का स्तर 85 प्रतिशत् है।
- मानवाधिकार का सरक्षण व राष्ट्रीय बाल नीति के विषय में शहरी विद्यार्थियो में 48 प्रतिशत् जागरूकता तथा ग्रामीण क्षेत्र के विद्यार्थियो मे 46 प्रतिशत् जागरूकता देखी गई, दोनों क्षेत्रों के विद्यार्थियों का प्रतिशत् 94 देखा गया।
- मानवाधिकार आयोग की स्थापना से सबंधित जागरूकता शहरी क्षेत्र के विद्यार्थियो मे 44 प्रतिशत् तथा ग्रामीण क्षेत्र के विद्यार्थियों मे 43 प्रतिशत् तथा कुल जागरूकता 87 प्रतिशत् देखी गई।
- मानवाधिकार आयोग के कार्य व मानवाधिकारों के लिए शिक्षा संबंधी जागरूकता शहरी विद्यार्थियों में 46 प्रतिशत् तथा ग्रामीण क्षेत्र मे 43 प्रतिशत् देखी गई। इनमें कुल जागरूकता का स्तर 89 प्रतिशत् है।
- मानवाधिकारों के प्रति शहरी व ग्रामीण क्षेत्र के विद्यार्थियों मे मानवाधिकारों के प्रति बोध कम पाया गया, जो छात्रों में जागरूकता के अभाव को दर्शाता है। तालिका 3 का बिन्दुवार विश्लेषण करने पर यह ज्ञात होता है कि शहरी व ग्रामीण क्षेत्र के विद्यार्थियों मे "मानव अधिकार परीक्षण" से प्राप्तांकों मे तुलनात्मक रूप से कोई विशेष अंतर नहीं देखा गया, क्योकि शहरी व ग्रामीण दोनो क्षेत्रो के विद्यार्थियों की नागरिक शास्त्र की पाठ्यपुस्तको में मानवाधिकार संबंधी बिन्दुओ का समावेश होता है, जिनके कारण इन विद्यार्थियों में मानवाधिकारों के ज्ञान के प्रति उच्च स्तरीय चेतना देखी गई।

लोकमान्य तिलक शिक्षा महाविद्यालय

उज्जैन, म.प्र.

शिक्षा संकाय में शोध अध्ययन पर प्रकाश व गुणवत्ता का रास्ता

❑ प्रवीण दोसी

शोध की समस्याओं को चुनना मार्गदर्शन के लिए प्रमुख समस्या है। जब समस्या को चुन लिया जाता है तो उसकी दिशा को तय किया जाता है। शोध की समस्या सामान्य आधार पर चुन ली जाती है। तब यह अत्यधिक साधारण होती है। जब तक अनुसंधानकर्ता अपने अध्ययन के साहित्य को अच्छी तरह से पढ़ न ले, उसके स्तर का विश्लेषण न कर ले और ऐसी समस्या जिसे वह विश्वास के साथ तर्क न कर ले, शोध की जरूरतों को बताते हुए, उसे आगे नहीं बढ़ना चाहिए। समस्या का चुनाव करना सचमुच एक गंभीर बात है और उसे काफी ध्यान से चुनना चाहिए। यह फिर से मार्गदर्शक की गुणवत्ता पर निर्भर करता है जो जहां तक हो विद्यार्थियों का ऐसे क्षेत्र में पंजीकरण करे जहा पर वह स्वयं पारंगत हो। धीरे-धीरे विद्यार्थियों को ऐसे क्षेत्र में लेना जिसके बारे में मार्गदर्शक स्वयं न जानता हो समाप्त होना चाहिए।

शोध अध्ययन के सभी क्षेत्रो मे उन्नति काफी सराहनीय रही है। विभिन्न क्षेत्रों की दृष्टि से उन्नति और भी शोधकर्ताओ की रुचि बढ़ाती है। यह कई मुख्य क्षेत्रों की उपेक्षा भी करती है। अध्ययनकर्ता के सामने एक प्रवृत्ति यह रही है कि शोध मे उन्नति मुख्य हो या न हो, उसका कोई अच्छा प्रभाव पडे या ना पडे शोध कार्य किया जाए।

इसके अप्रभावी होने के कई कारण है। विश्वविद्यालय ने उच्च शिक्षा मे अध्यापन के लिए पी.एच.डी स्तर के शोध की अनिवार्यता से गुणात्मकता मे वृद्धि आई है। इसके अतिरिक्त, शोध की संख्याओं मे बढ़त इसलिए भी है क्योकि डिग्री देने वाले सस्थानों की बढ़त हो गई है। पी. एच.डी. के मार्गदर्शकों मे मिश्रण होना और अध्यापको में पी एच.डी डिग्री को पाने की होड ताकि उनकी योग्यता बढ जाए और साथ ही साथ उनके प्रोमोशन भी हो जाएं। कुछ ही अध्ययनकर्ताओं ने इस पेशे को बढ़ाने की कोशिश की है और इसी वजह से इसकी गुणवत्ता भी बढ़ी है। अगर हम देखे कि शिक्षा विभाग ने पिछले पाच वर्षो में कितने शोधकर्ताओ को यह डिग्री प्रदान की है, उससे जो यह प्रवृत्ति उभर कर सामने आई है, वह इस प्रकार है–

- ❑ 1940 के दशक मे देश ने एक पी एच डी प्रति वर्ष प्रदान की।
- ❑ 1950 के दशक में लगभग एक पी.एच.डी प्रति 73 दिन मे प्रदान की।
- ❑ 1960 के दशक में लगभग एक पी.एच डी. प्रति 16 दिन में प्रदान की।
- ❑ 1970 के दशक में लगभग एक पी एच.डी. प्रति साढे चार दिन मे प्रदान की।
- ❑ अभी के दशक में हर तीसरे दिन एक पी.एच डी. की डिग्री प्रदान की जाने लगी है।

अगर दूसरे विभागो व दूसरे बिना डिग्री वाले अध्ययनों को जोड़ा जाए तो यह चौकाने वाला तथ्य सामने आएगा कि हर 36 घटे मे एक पी.एच डी. की उपाधि प्रदान की जाती है और आने वाले दशक में हर दिन एक पी.एच डी की उपाधि प्रदान की जाएगी। परिणाम ने अध्ययन

की गुणवत्ता को कम कर दिया है। अध्ययन की तकनीक में सुधार शोध के लिए अलग-अलग उपकरण तैयार करने, आंकड़े इक्ट्ठा करने मे जागरूकता व तकनीकी मशीनो के उपयोग से तो लग रहा था कि अध्ययन की गुणवत्ता बढेगी पर इनसे जो फायदे थे, उनकी जगह उत्साह, गभीरता व कडे परिश्रम व चिंतन-मनन की कमी के कारण अध्ययन की गुणवत्ता बढ़ नहीं पाई।

शिक्षा एक कमजोर संकाय के रूप मे

शिक्षा मे कुछ प्रमुख कमियां रही है जिससे यह एक पूर्ण सकाय के रूप में नहीं आ पा रही है।

- ☐ एकदम साफ शिक्षा सम्बन्धी स्वरूप का न होना।
- ☐ शिक्षा सबंधी ढांचे का न होना।
- ☐ अध्ययन के कार्य व रीति की अपार्यप्त समझ।
- ☐ अध्ययन की असर्मथता, शिक्षा संबधी नीति, कार्यक्रम व अभ्यास की कमी होना।

ये जो प्रमुख कमिया हैं, इन पर कई बार देश के शिक्षा शास्त्रियो मे विचार-विमर्श किया गया। पहले तीन सर्वेक्षण के अनुसार बुच-बुच व यादव (1974), यादव (1979), बुच व गोविन्दा (1986) ने अध्ययन के क्षेत्र में कई त्रुटियो को उभारा है और इन तथ्यो को अच्छी तरह समझा है। इन तथ्यो पर फिर से विवाद करने से अच्छा है ध्यान दे कि पहले इन पर क्या सुझाव दिए गए हैं।

शिक्षा संबंधी स्वरूप

अध्ययनकर्ता शिक्षा सबंधी स्वरूप को वड़े मायने में नही देख पाए जो अध्ययन को संबद्ध और काम को बनाने मे मदद करता है। University Education Commission Report (1951) और Education Commission Report (1964-66) ने अध्ययन की समस्याओ को देश के विकास की समस्या बताया है। देश का विकास, विकास के लक्ष्यों पर आधारित होता है। विकास के लक्ष्य यह ध्यान मे रखकर बनाए जाते हैं कि किस तरह व्यक्ति व सामाजिक जरूरतों को पूरा किया जाए।

ढांचे की धारणा

दूसरी त्रुटि है शिक्षा संबधी अध्ययन के लिए सही ढाचे का होना। इस ढांचे की प्रमुखता को अध्ययनकर्ताओं ने माना है, पर उन्होने अपने सिद्धान्तों को कभी ढांचे मे नही ढाला है। समस्याओ का चुनाव ज्यादातर तदर्थ आधार पर और मध्यस्थ होता है, जिसके लिए उच्च अध्ययनकर्ता, जो भारतीय विश्वविद्यालयो मे हैं, उन्हे जिम्मेदारी लेनी चाहिए, क्योकि यह उनका कर्तव्य है कि वे छोटे स्तर के शोधकर्ताओ को पथ प्रदर्शित करे।

यह बहुत ही आश्चर्यजनक तथ्य है कि एक विश्वविद्यालय के प्रोफेसर ने अपना अध्ययन गीता के ज्ञान की खोज के साथ किया था, बाद में उसने तुलनात्मक शिक्षा, फिर समाजशास्त्र मे शिक्षा, मनोविज्ञान के छात्रो को सलाह देना, फिर जाति संबधी शिक्षा पर शोध कराना, आध्यापक का स्वभाव, व्यवसाय संबधी शिक्षा और न जाने क्या-क्या। दुर्भाग्य से इस तरह के शोध के कई उदाहरण हैं। इस प्रकार शोध की समस्या, शोध सिद्धान्त बनाने व जानकारी को एक साथ करने में सहायक नहीं है। मात्र डिग्री प्राप्त की जाती है। इसलिए डिग्री धारकों की संख्या बढ़ गई है। इस अध्ययन से दो प्रमुख समस्याएं सामने आई हैं। तदर्थ आधार पर अध्ययन का चुनाव करना। वास्तविक स्वरूप के शोध के कार्यक्रम की योजना बनाने का परिणाम अप्रभावी और बेकार शोध है।

शोध के लिए काम में ली गई विधि

शोध की समस्याओ को चुनना मार्गदर्शन के लिए प्रमुख समस्या है। जब समस्या को चुन लिया जाता है तो उसकी दिशा को तय किया जाता है। शोध की समस्या सामान्य आधार पर चुन ली जाती है, तब यह अत्यधिक साधारण होती है। जब तक अनुसधानकर्ता अपने अध्ययन के साहित्य को अच्छी तरह से पढ़ न ले, उसके स्तर का विश्लेषण न कर ले और ऐसी समस्या जिसे वह विश्वास के साथ तर्क न कर ले, शोध की जरूरतों को बताते हुए, उसे आगे नहीं बढना चाहिए। समस्या का चुनाव करना सचमुच एक गंभीर बात है और उसे काफी ध्यान से चुनना चाहिए। यह फिर से मार्गदर्शक की गुणवत्ता पर निर्भर

करता है, जो जहा तक हो, विद्यार्थियों का ऐसे क्षेत्र में पंजीकरण करे जहा पर वह स्वयं पारंगत हो। धीरे-धीरे विद्यार्थियों को ऐसे क्षेत्र मे लेना जिसके बारे में मार्गदर्शक स्वयं न जानता हो, समाप्त होना चाहिए।

मार्गदर्शक द्वारा अध्ययन के क्षेत्र मे किए गए सर्वेक्षण का परिणाम यह है कि हर शोध में ऐसे कुछ उपकरण होते हैं जिनका बड़े पैमाने पर इस्तेमाल किया जाता है। कितनी बार मात्रा का चुनाव, मार्गदर्शकों के उपकरणो के शोध के आधार पर किया जाता है। इसका परिणाम यह हुआ कि ऐसे शोधकर्ता आ गए जिनमें शोध के सामान्य उपकरण खोजने की क्षमता भी नही है। अच्छे मार्गदर्शकों को विकसित करने के लिए यह जरूरी है कि शोध के उपकरणो का निर्माण स्नातकोत्तर डिग्री के दौरान सिखाया जाए।

न्यादर्श प्राप्त करने की विधि

न्यादर्श का चुनाव शिक्षा के अध्ययन मे एक समस्या है जिस पर ज्यादा ध्यान केन्द्रित नही किया गया। ऐसा पाया गया है कि काफी मार्गदर्शक वैज्ञानिक ढंग से न्यादर्श का चुनाव नहीं करते। वैज्ञानिक तरीको से पाए गए नमूनों से नमूनो की त्रुटियों को कम किया जा सकता है।

गुणवत्तायुक्त शोध हेतु रास्ता

- ☐ सबसे पहले चरण में आप एक अच्छी परिभाषित समस्या लिखिए। इस शुरुआती योजना मे एकदम साफ लक्ष्य व वितरण योजना ऐसी होनी चाहिए कि विद्यार्थी को पता लग जाए कि लक्ष्य क्या है? और वहां पहुचने के लिए उसे क्या करना चाहिए? सभी साथ बैठकर प्रश्न बनाएंगें। उन्हें हल करेंगे व ज्ञानी लोगों को भेजेंगे। दूसरे चरण में आप नई योजनाओं का प्रस्ताव करते रहिए, चाहे वे अच्छी तरह परिभाषित हों या अस्पष्ट हों और आप ज्यादातर स्वय ही समस्याओं का हल खोजने में लग जाएं। आपको अपने मार्गदर्शक से एक हफ्ते मे एक से अधिक बार मिलना चाहिए। अगर आप कोई समस्या पर तर्क करना चाहते हैं, तो शरर्माइए मत।
- ☐ अपने रिसर्च सेमिनार अथवा मार्गदर्शक से मिलने से पहले अच्छी तैयारी करें। अगर आपने कुछ प्रदर्शन करने की योजना बना ली है या कोई हल ढूंढ लिया है तो उसे इस तरह से प्रदर्शित कीजिए कि वह अच्छा व साफ हो। प्रस्तुत करने की सभी बातों की क्रम से योजना बना दीजिए और सोचिए कि आप बोर्ड पर क्या-क्या और कहा-कहा लिखेंगे। कुछ लोगो को यह याद नही रहता कि पिछले सेमिनार मे मार्गदर्शक ने क्या बात कही थी, फिर से उसे दोहराना पडता है। ऐसे समय मे एक कॉपी साथ मे लानी चाहिए और उसमे लिखना चाहिए। अगर जरूरत हो, तो दोहराने के लिए या स्पष्टीकरण के लिए कहिए। इस बात का ध्यान रखे कि तकनीकी मुद्दा साफ हो, कि शोधकर्ता को क्या करना है? यदि वही चीज दोहरानी पडे तो समय की बर्बादी होगी। कोशिश कीजिए कि अगले सेमिनार मे आप कहा पर होंगे, आपके काम, पृष्ठ और वितरण क्या होंगे, उसे भी लिख लीजिए वरना भूल जाएंगे।
- ☐ कुछ शोधकर्ताओं को कोई भी तरीका नहीं होता, कुछ विद्यार्थी आशा करते है कि उन्हें कदम-कदम पर निर्देश मिले, जिससे कि वे समस्याओ को खोज कर उसका हल निकाल सकें। इस तरह से काम नहीं होता है। इसमे सबसे पहले शोधकर्ता का सिद्धान्त है, सोचना और बार-बार सोचना। यदि ज्यादा समय आपको समझने मे लग जाए तो आपको न्यूनतम गुणवत्ता का आधार ही मिलेगा।
- ☐ अपने मार्गदर्शक से ज्यादा से ज्यादा बात करें और ईमानदार रहें। अगर आपको कोई समस्या अच्छी नही लगे तो बताए और किसी चीज के लिए माग करे।
- ☐ स्वयं का होशियार होने संबंधी प्रश्न गलत है। होशियारी जैसी कोई चीज नही। अगर आपको उसे करने में मजा आ रहा है तो उसे कीजिए जैसे-जैसे आप आगे बढ़ेंगे आपकी गलतियो का पता लग सकता है।
- ☐ आत्मविश्वास हमारे परिणाम व उन्नति को जिदगी के हर क्षेत्र मे प्रमाणित करता है। यह शोध में भी अपना स्थान रखता है। कितनी बार ऐसे विद्यार्थी होते है जिनमें विश्वास नहीं होता। यह काम के प्रति रुचि

को कम करता है।

- यह हमेशा फायदेमद होता है कि अगर आप अपने मार्गदर्शक के अलावा किसी और को भी पहला अथवा अतिम पाठ पढने को दे। यह भी ठीक है अगर दूसरे लोगों को आपके अध्ययन के वे परिच्छेद पढ़ने के लिए दिए जाएं जिनमे उनकी रुचि हो, इससे वह अपने विचारो मे कुछ मदद कर पाए। किसी भी सूरत में अपनी तरफ से पूर्व सही परिच्छेद दें ताकि वे अपना समय आपकी व्याकरण, शब्द आदि सुधारने में खराब न करें।
- एक विद्यार्थी जो आपके ही विषय में अध्ययन कर रहा हो और यह जानना चाहता है कि आपके अध्ययन मे आपने क्या किया है, मुख्य भागो के लिए चित्रो, कम्प्यूटर प्रोग्रामों आदि की सहायता लेनी चाहिए। आपने आपके अध्ययन से पूर्व दूसरे के अध्ययन को पुस्तकालय मे पढ़ा होगा, आपको पता चल गया होगा कि साफ अध्ययन के क्या लाभ है और अस्पष्ट अध्ययन का क्या नुकसान है।
- अगर आप परिणाम, टिप्पणी या निष्कर्ष निकाले जो आपके स्वय के न हो, तो यह जरूर लिखें कि आपको यह परिणाम कहा से मिले।
- अच्छे संदर्भ से यह पता चलता है कि हमारे अध्ययन की नीव कितनी मजबूत है या उस पर हम कितना भरोसा करते है। तथ्य पहले से है और अभी आप ने इसमे कितना और जोड़ा है।
- शोध अध्ययन मे लिखावट ऐसी होनी चाहिए कि आम आदमी भी आसानी से समझ सके। अच्छी व्याकरण और सोची समझी लेखनी हमेशा अध्ययन को आसान बना देती है। और कुछ बड़े तकनीकी शब्दों की भी कुछ अध्ययन में जरूरत पड़ती है। अत· यथार्थता को कभी संक्षेप मे बलिदान नही करना चाहिए। आपका शोध अध्ययन से जुडा हुआ व तर्क को समझने वाला होना चाहिए न कि केवल कार्य व कथन को दर्शाने वाला। शोध अध्ययन मे हमेशा एक वचन का प्रयोग करें न कि बहुवचन का। अगर आप अपने शोध का विवरण दे रहे हो, आमुख मे धन्यवाद की सूची के अलावा भी किसी और ने मदद की है, तो वहां बहुवचन का उपयोग करे।
- अध्ययन एक बहुत लम्बा कार्य है और उसे एकदम पूर्णत. सही, थोड़े से समय मे, बनाया नही जा सकता। अध्ययन मे कई विषय ऐसे होते है जिन्हें जोडकर आप बहुत ही अच्छा कर सकते हैं। आप ने भले ही कितनी ही बार आपके अध्ययन को पढा है, परन्तु कुछ विषय ऐसे होते हैं जिनमे हमेशा सुधार किया जा सकता है। इसलिए शोध अध्ययन के अन्त के लिए एक समय निर्धारित कर लें और अपने अध्ययन को उस समय तक अच्छे से अच्छा बनाने की कोशिश करे।
- अपने शोध कार्य की कितनी प्रतिया हों, इसके लिए मार्गदर्शक से सलाह लें। आप अपने मार्गदर्शक के लिए विश्वविद्यालय व पुस्तकालय के लिए स्वय के लिए प्रतिया रख लें। आपका मार्गदर्शक आपको कितनी प्रतिया चाहिए, उसकी सूचनी बनाने में मदद कर सकता है।
- मुखपृष्ठ भिन्न-भिन्न होते हैं, इसे अपने विश्वविद्यालय के अनुरूप बनाने का प्रयास करे।
- काफी अध्ययनकर्ता धन्यवाद उन लागों को देते है जिन लोगो ने उनकी मदद की है या फिर दूसरी तरह जैसे खाना, पढ़ाई, रुपया, कपडा, दोस्त आदि की तरह मदद की है। अगर कोई काम किसी के सहयोग से किया जाए तो हिसाब लिखा जाए कि क्या-क्या सहयोग किया है।
- परिणाम व तर्क को बहुत कम अध्ययन में जोड़ा जाता है।
- अतिम परिच्छेद संदर्भ साहित्य, निष्कर्ष व सुझाव आदि के काम के लिए। इसमे आपके निष्कर्ष हमेशा छोटे रूप मे शामिल होने चाहिए। निष्कर्ष का बिन्दु रूप मे करना ज्यादा सार्थक व मददगार होता है।
- पी एच.डी. शोध हेतु रजिस्ट्रेशन कराने वाले शोधार्थियो के लिए मापदण्ड को और सख्त बनाया जाए। प्रत्येक विश्वविद्यालय में शोधार्थी के सामान्य ज्ञान तथा तकनीकी निपुणता पर ज्यादा जोर दिया जाना चाहिए। यह जाच विश्वविद्यालय द्वारा प्री पी.एच डी रजिस्ट्रेशन टेस्ट द्वारा की जा सकती है।
- चूंकि सभी विश्वविद्यालय पी.एच डी स्तर की शोध की गुणवत्ता को काबू में करने मे हार गए, इसलिए

एक राज्य स्तर पर रिसर्च बोर्ड का गठन बनाया जाए, जिसमे सारे राज्य के निष्णात प्रतिनिधि हो, वहीं पी. एच डी प्रतिवेदन प्रेषित किया जाए तथा बाह्य परीक्षक चुनने का अधिकार सिर्फ बोर्ड के चेयरमेन को हो। वह चाहे जिस निष्णात से पी एच.डी. स्तर के शोध कार्य का मूल्यांकन करवाए।

- दूसरा बदलाव जो शायद अन्वेषण की गुणवत्ता को बढाने मे मदद कर सकता है, पी.एच.डी स्तर के शोधकार्य महाविद्यालय के मार्गदर्शक के बिना हो।
- विश्वविद्यालय का उपकुलपति शिक्षाशास्त्री होना चाहिए तथा शोध में निपुणता रखने वाला भी, जो अकादमिक लीडरशिप दे सके।
- शोध की गुणवत्ता बढाने के लिए प्रत्येक पी एच.डी. शोधार्थी के लिए छोटे-छोटे तीन चार सेमिनार, वर्कशाप का पूरा करने की अनिवार्यता रखनी चाहिए जो हर ग्रीष्मावकाश तथा दीपावली की छुट्टियो में यू जी सी , एन.सी.ई आर टी., आई सी.एस एस.आर., एन आई.ई.ए पी.ए. जैसी सस्थाओं द्वारा आयोजित हो।
- शोध समस्या का चयन सामाजिक तथा व्यक्तिगत जरूरतों को लेकर होना चाहिए। समस्या का चुनाव ऐसा होना चाहिए कि यह एक सूझबूझ वाली नीति व एक ढाचा बनाया जा सके।
- शोध अध्ययन मार्गदर्शको का नाम उसके पद के साथ इकट्ठा किया जाता है। विश्वविद्यालय के प्रोफेसर का अपना एक विशेष क्षेत्र होता है। अक्सर यह देखा गया है कि विश्वविद्यालय के प्रोफेसर कभी गीता के ज्ञान पर, बाद में तुलनात्मक शिक्षा, फिर समाजशास्त्र में शोध, मनोविज्ञान में छात्रो को सलाह देना, फिर जाति संबधी शिक्षा स्वभाव, व्यवसाय संबधी शिक्षा और न जाने क्या-कया, दुर्भाग्य से एक ही व्यक्ति द्वारा इस प्रकार अलग-अलग अनुशासन मे शोध कराने के उदाहरण अनन्त है। इससे शोधकार्य बेकार-सा हो जाता है। अत' प्रत्येक मार्गदर्शक का अपना-अपना स्पेशलाइजेशन या मुख्य क्षेत्र होना चाहिए। वह उसी मे अपने छात्र को रजिस्टर करा सके, ऐसा प्रयास आवश्यक है।
- अध्ययनकर्ता जब तक अपने अध्ययन के साहित्य को अच्छी तरह पढ न ले, अपने स्तर पर उसका विश्लेषण न कर ले, विश्वास के साथ मार्गदर्शक तथा निष्णात लोगो से तर्क न कर ले अथवा जब तक स्वय पारंगत न हो जाए, तब तक रजिस्ट्रेशन नही होना चाहिए।
- आजकल ऐसे पी एच.डी शोध होने लग गए हैं, जिनमे मानकीकृत उपकरण अधिक मात्रा मे उपयोग मे लाए जाते है या उपकरण आसानी से मिल जाएं। इस तरह की सोच का परिणाम ऐसी समस्या का चुनाव करना है जहां पर पर्याप्त शिक्षा का स्वरूप न हो, जहा पर कोई मजबूत ढाचा न हो, अध्ययन का सबध समाज की जरूरत से नहीं होता है। शोध के उपकरण का आसानी से मिलना, उनका आसान इस्तेमाल, इस अवाछनीय अनुभव का अत होना चाहिए।
- न्यादर्श का चुनाव सही ढंग से नही होता, 80 के दशक तक सिर्फ 40 प्रतिशत् अध्ययन में न्यायदर्श वैज्ञानिक तरीके से हुआ है।
- शोध अध्ययन में भी निम्न बाते शामिल होनी चाहिए–
  - समस्या का स्पष्ट कथन और इसे क्यो सुलझाना आवश्यक है।
  - संदर्भ साहित्य का गहन अध्ययन, दूसरे के द्वारा विषय पर अथवा मिलते-जुलते विषय पर अच्छे कार्य को देखा जाना चाहिए।
  - ऐसी सोच विकसित कर सके कि परिणाम को कैसे ढूंढ़ा जाए?
  - शोधकर्ता की शोध योजना का प्रारूप।
  - अध्ययन पर धुंधली बाहरी रेखा खींचना आना चाहिए। □□

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महाविद्यालयों की आवश्यकता

❑ विनीता चौधरी

कन्या महाविद्यालयों की इस प्रकार स्थापना द्वारा यह कहा जा सकता है कि भारत में स्त्री शिक्षा को उतना ही आवश्यक माना जा रहा है, जितना पुरुष वर्ग की शिक्षा को। परन्तु प्रश्न यह है कि वर्तमान समय में महिला महाविद्यालयों की स्थिति क्या है? और महिलाओं का रुझान इन विद्यालयों के प्रति क्या है? महिला महाविद्यालयों की स्थापना का प्रमुख कारण महिलाओं को पुरुषों के समान अधिकार दिलाना था, क्योंकि शिक्षा के क्षेत्र में महिलाओं की प्रगति को देखते हुए, यह आवश्यकता महसूस की गई कि उन्हें भी पुरुषों के समान स्वतन्त्र विद्यालयों में शिक्षा ग्रहण करने का अधिकार प्राप्त है, जहां पर महिलाएं स्वतंत्र रूप से शिक्षा ग्रहण करने के साथ-साथ अपने व्यक्तित्व को भी तराश सकें। महिला महाविद्यालयों का सबसे अधिक लाभ उन बालिकाओं को है जो निम्न तथा निम्न-मध्यम वर्गीय परिवारों से आती हैं तथा जिनकी बारहवीं तक की शिक्षा-दीक्षा बालिका विद्यालयों में होती है।

परिचय

औरत तुम उठो और जियो
अपने फेफडो मे भर लो ताजी हवा
यह आसमान और इसके सितारे तुम्हारे हैं
यह झाउवन, नदी, कासवन और
अरण्य सब तुम्हारे हैं
ये बादल, पानी-हवा सब है तुम्हारे लिए
मिट्टी, घास, फूल, पंछी और ये
समुद्र हैं तुम्हारे

तसलीमा नसरीन की उपरोक्त पक्तियों पर नजर डाले तो ये पक्तिया स्त्रियों को एक सशक्त संदेश देती प्रतीत होती हैं। स्त्री जो ईश्वर की एक अनूठी कृति है, आज जीवन के प्रत्येक क्षेत्र मे अपनी पहचान बनाती जा रही है, चाहे वह राजनीति हो, सामाजिक, चिकित्सा अथवा शिक्षा सम्बन्धी अन्य क्षेत्र।

बेनजॉनटर अपने अध्ययन के आधार पर इतिहास को तीन हिस्सों में बांटते हैं: पहला— यादाश्त मे समाया हुआ इतिहास, दूसरा— ढूंढ निकाला गया इतिहास, तीसरा— सिर के बल खड़ा किया गया इतिहास। परन्तु यदि स्त्रियों के इतिहास पर प्रारम्भ से एक नजर डाले तो ऐसा प्रतीत होता है कि इतिहास आज तक लिखा ही नहीं गया।

कविवर पंत के अनुसार— "देवी, मां, सहचरि, प्राण" भारतीय नारी के अनेक रूप बताए गए है। परन्तु इन शब्दों के आधार पर क्या आज समाज में महिलाओ की शिक्षा की समुचित व्यवस्था की गई है। बातों को जानने के लिए इतिहास के पन्नों को पलटना आवश्यक है।

वैदिक काल से ही स्त्रियों की शिक्षा आरम्भ हो चुकी थी, परन्तु उन्हें पुरुषों के समान शिक्षा का अधिकार नहीं था तथा उनके लिए पृथक विद्यालयो की व्यवस्था नहीं थी, अपितु उस काल मे शिक्षा के स्तर मे पुनः गिरावट आई और शिक्षा में यह गिरावट ब्रिटिश काल तक बनी रही क्योंकि ईस्ट इण्डिया कंपनी के शासकों को शिक्षित महिलाओ की आवश्यकता नहीं थी। इस काल में बालिका विद्यालयो की स्थापना केवल मिशनरियो तथा सरकारी व

गैर-सरकारी मनुष्यो के व्यक्तिगत प्रयासों के फलस्वरूप हुई। 1851 मे मिशनरियों के प्रयासो से 371 बालिका विद्यालय सचालित किए गए। परन्तु उच्च शिक्षा के क्षेत्र मे स्त्री शिक्षा के मार्ग को प्रशस्त करने का श्रेय पूर्ण रूप से 'ब्रह्म समाज', 'आर्य समाज' तथा 'सर्वेन्ट्स ऑफ इण्डिया सोसाइटी' जैसी अनेक सुधारवादी सामाजिक संस्थाओ को जाता है। इन संस्थाओं के प्रयासों द्वारा 1916 में कर्वे और भण्डारकर द्वारा पूना मे महिला महाविद्यालय का शिलान्यास किया गया (जो वर्तमान में एस.एन.टी डी. के नाम से जानी जाती है।) तथा 1916 मे ही दिल्ली मे महिलाओं के लिए लेडी हार्डिंग्स मेडिकल कॉलेज की स्थापना हुई।

1881-82 में मात्र छः महिलाएं विश्वविद्यालीय शिक्षा ग्रहण कर रही थीं और शताब्दी समाप्त होते-होते इनकी सख्या 264 हो गई। 1883 में कादम्बिनी बसु व चन्द्रमुखी बसु पहली स्नातक महिलाएं बनी।

स्त्री शिक्षा का प्रारम्भ

उपरोक्त अनेक प्रयासों के फलस्वरूप भारत मे उच्च शिक्षा के क्षेत्र मे स्त्री शिक्षा का विकास हुआ। स्वतत्र भारत में अनेक शिक्षा समितियों तथा आयोगों के प्रयासों के फलस्वरूप महिलाओं की शिक्षा मे क्रातिकारी परिवर्तन हुए जिसका जीता जागता उदाहरण आज हमारे सम्मुख हर क्षेत्र मे महिलाओ की प्रगति है। इस संबंध में के. नटराजन के अनुसार– ''यदि सौ वर्ष पूर्व मरने वाला व्यक्ति आज फिर जीवित हो जाए, तो उसे आश्चर्यचकित करने वाला सर्वप्रथम एवम् सबसे महत्वपूर्ण परिवर्तन– स्त्रियो की दशा मे क्रांतिकारी परिवर्तन होगा।''

महिलाओं की दशा में उपरोक्त परिवर्तनों को देखते हुए ही महिलाओं के लिए पृथक् महिला महाविद्यालयो की आवश्यकता अनुभव की गई तथा स्वतंत्रता प्राप्ति के पश्चात् अनेक महिला महाविद्यालय खोले गए।

बाबू पुरुषोत्तम दास टण्डन और श्यामलाल अग्रवाल के प्रयासों के फलस्वरूप 2 फरवरी, 1822 को 'महिला विद्यापीठ', प्रयाग, की स्थापना हुई। सन 1937 तक इस विद्यापीठ में 7 विभाग स्थापित हो चुके थे जहां माध्यमिक से परास्नातक की कक्षाओं में शिक्षण होता था। 1933 मे महादेवी वर्मा ने इस सस्थान के प्राचार्य का दायित्व ग्रहण किया। तत्पश्चात् 1936 में दरभगा जिले के मझौलिया मे रामानन्द मिश्रा तथा उनकी पत्नी राजन किशोरी द्वारा बिहार महिला विद्यापीठ की स्थापना के साथ महिला महाविद्यालयो की सख्या मे बढ़ोतरी होती गई। इसके पश्चात् आर्य कन्या महाविद्यालय, बडौदा, जालन्धर कन्या महाविद्यालय तथा कन्या गुरुकुल महाविद्यालय, देहरादून आदि अन्य कन्या महाविद्यालयो की स्थापना हुई।

महिला महाविद्यालयों की आवश्यकता

कन्या महाविद्यालयों की इस प्रकार स्थापना द्वारा यह कहा जा सकता है कि भारत में स्त्री शिक्षा को उतना ही आवश्यक माना जा रहा है जितना कि पुरुष वर्ग की शिक्षा को। परन्तु प्रश्न यह है कि वर्तमान समय मे महिला महाविद्यालयों की स्थिति क्या है? और महिलाओ का रुझान इन विद्यालयों के प्रति क्या है? महिला महाविद्यालयो की स्थापना का प्रमुख कारण महिलाओं को पुरुषो के समान अधिकार दिलाना था क्योंकि शिक्षा के क्षेत्र मे महिलाओं की प्रगति को देखते हुए यह आवश्यकता महसूस की गई कि उन्हें भी पुरुषो के समान स्वतन्त्र विद्यालयों मे शिक्षा ग्रहण करने का अधिकार प्राप्त है, जहा पर महिलाए स्वतंत्र रूप से शिक्षा ग्रहण करने के साथ-साथ अपने व्यक्तित्व को भी तराश सके। महिला महाविद्यालयों का सबसे अधिक लाभ उन बालिकाओं को है जो निम्न तथा निम्न-मध्यम वर्गीय परिवारो से आती हैं तथा जिनकी बारहवी तक की शिक्षा-दीक्षा बालिका विद्यालयो में होती है। इन बालिकाओ मे अनेक प्रतिभाए छिपी होती है परन्तु अपने सामाजिक दायरे के कारण उन की ये प्रतिभाएं दब जाती है। महिला महाविद्यालयो का वातावरण ऐसी प्रतिभाओं को आगे बढ़ाने का सर्वोत्तम साधन है। अपनी प्रतिभा उजागर करने के साथ ही महिलाएं अपने विचारों का आदान-प्रदान अपनी सहपाठी छात्राओ तथा शिक्षिकाओ के साथ कर सकती है। समाज की आम तौर पर प्रारम्भ से ही यह धारणा रही है कि महिलाएं प्राकृतिक रूप से पुरुषों से भिन्न है परन्तु प्रत्येक क्षेत्र में महिलाओं की भागीदारी ने इस बात को सम्पूर्ण संसार के सामने मिथक

सिद्ध किया है। पुरुषो से भिन्न महिलाओं द्वारा ही सचालित विद्यालयों की सम्पूर्ण व्यवस्था भी उसी प्रकार संचालित होती है जिस प्रकार सहशिक्षा विद्यालयो की। वर्तमान में, यदि बदली हुई सामाजिक परिस्थितियों का अध्ययन किया जाए जहा बदलते हुए सामाजिक वातावरण मे, समाज में महिलाओ की असुरक्षा बढ़ती जा रही है और बलात्कार जैसा राक्षस आज समाज को धीरे-धीरे निगलता जा रहा है, वहा विश्वविद्यालय भी महिलाओं के लिए सुरक्षित नही है क्योंकि दिन-प्रतिदिन भौतिकतावादी होते जा रहे इस समाज मे सचार के साधन हमें जहा एक ओर लाभ पहुंचा रहे हैं, वही दूसरी ओर हमे अपराध की ओर ले जा रहे हैं। इसका सर्वाधिक प्रभाव हमारी युवा पीढ़ी में दिखाई देता है और इससे प्रभावित हो कर ही यह पीढ़ी घृणित कार्य करने को तत्पर रहती है। दूषित वातावरण का प्रभाव भारत वर्ष के लगभग सभी विश्वविद्यालयों मे देखने को मिलता है। अतः वर्तमान समय मे महिला महाविद्यालय ही महिलाओं की सुरक्षात्मक शिक्षा के सर्वोत्तम साधन माने जा सकते है।

महिला महाविद्यालय की आवश्यकता तथा महिलाओं को उनसे होने वाले लाभों का अध्ययन करने के पश्चात यह जानना भी आवश्यक है कि क्या वर्तमान समय में महिला महाविद्यालय अपनी वास्तविकता को पूर्ण कर पा रहे हैं? अर्थात महिलाए इन महाविद्यालयों के प्रति रूचि ले रही है अथवा नहीं।

हमारे देश मे स्वतंत्रता प्राप्ति के बाद से महिला महाविद्यालयों की सख्या बढ़ी है और अनेक महाविद्यालयो में विभिन्न पाठ्यक्रम संचालित किए जा रहे है। स्नातक और स्नातकोत्तर विषयो के साथ-साथ अनेक व्यावसायिक व तकनीकी पाठ्यक्रमों का भी दिन-प्रतिदिन विकास हुआ है। परन्तु उपरोक्त सभी महाविद्यालयों पर यदि अध्ययन किया जाए तो हम देखते हैं कि कुछ विद्यालयो को छोड़ कर अन्य महाविद्यालयों मे छात्राओ की सख्या मे पूर्व के वर्षो के अनुपात में कमी आई है तथा जिन महाविद्यालयो में छात्राओं की संख्या यदि है तो इसका प्रमुख कारण उस स्थान का वातावरण तथा माता-पिता की इच्छा है। महाविद्यालयों मे घटती हुई संख्या का प्रमुख कारण बालिकाओ का सहशिक्षा के प्रति रुझान है। बदलते हुए सामाजिक वातावरण में लड़के-लड़कियो की मित्रता, फैशन के प्रति उन्मुक्तता तथा भौतिकवादी वस्तुओ के प्रति झुकाव बढता जा रहा है। इस संबध मे अनेक छात्राओ के विचारों को जानने के उपरान्त यह देखा गया है कि चूंकि प्राथमिक से उच्च माध्यमिक कक्षा तक की शिक्षा ग्रहण करने हेतु इन्हें एक कठोर अनुशासन मे रह कर अध्ययन करना पड़ता है, अत. स्नातक स्तर पर छात्राए इन बधनों से पूर्णतयाः मुक्त होना चाहती हैं।

स्नातक स्तर के अनेक महिला महाविद्यालयों में घटती हुई सख्या का एक अन्य प्रमुख कारण इन महाविद्यालयो मे विषयों का अभाव है। बालिकाएं जो विषय स्नातक स्तर पर चुनना चाहती है, वे उन्हे उपलब्ध नहीं हो पाते और इस कारण न चाहते हुए भी या तो ये छात्राएं व्यक्तिगत रूप से परीक्षा देती हैं अथवा सहशिक्षा मे प्रवेश ले लेती है।

जहां भारतवर्ष में एक ओर दूरस्थ क्षेत्रों में उच्च शिक्षा के विकास हेतु नए महाविद्यालयो को खोलने की योजनाएं बनाई जा रही है, वही दूसरी ओर महिला महाविद्यालय उपेक्षित होते जा रहे हैं। अत' छात्राओं का महिला महाविद्यालयो के प्रति रुझान पैदा करने के लिए यह आवश्यक है कि इन महाविद्यालयों को उपेक्षित न किया जाए। इसके लिए कुछ ऐसे नियम बनाए जाएं जिनसे इनकी महिला महाविद्यालयों के प्रति रुचि पैदा हो जैसे-- शुल्क मुक्ति अथवा छात्रवृत्ति द्वारा निम्न वर्गीय महिलाओ को प्रोत्साहित किया जा सकता है। महिला महाविद्यालयों में भी अधिक से अधिक विषयों को खोलने के प्रयास किए जाए तभी स्त्री शिक्षा के क्षेत्र मे परिवर्तन लाए जा सकते है। क्योकि हमारा समाज जब तक महिलाओ को व्यक्तिगत रूप से पहचान नही देगा तब तक समाज आगे नही बढ़ेगा। इस सबंध में फ्रेंच लेखिका सीमोन द बेउबा ने कहा— "स्त्री का जन्म नहीं होता है, उसे बनाया जाता है"। अतः हम यह कह सकते हैं कि प्रत्येक स्त्री को स्वयं के प्रति अधिक ईमानदार बनना है तथा अपनी महत्वाकांक्षाओं, क्षमताओं तथा योग्यताओ को उड़ान देने के लिए स्वय ही पंख विकसित करने है। अत' सुरक्षा के साथ-साथ शिक्षा का पूर्ण अधिकार देना आवश्यक है जो इस प्रदूषित वातावरण मे महिला महाविद्यालयो के विकास द्वारा ही सभव प्रतीत होता है। □□

आर्य कन्या महाविद्यालय
अल्मोड़ा, उत्तरांचल

वर्तमान संदर्भों में भारतीय उच्च शिक्षा का दिशा निर्धारण

❑ मृदुला भदौरिया

स्वतंत्रता के पश्चात् भारत में उच्च शिक्षा का तीव्र गति से विकास हुआ है तथा वर्तमान समय में यह पूरे विश्व में दूसरे स्थान पर मानी जा सकती है। किन्तु विश्व के अन्य देशों की तुलना में यहां 17 से 24 वर्ष की आयु-वर्ग के युवाओ का केवल 6% ही उच्च शिक्षा का लाभ उठा पा रहा है जबकि फ्रांस में 50%, अमेरिका में 81% तथा कनाडा में 99.8% युवा इसका लाभ उठा रहे हैं। यदि भारतवर्ष को स्वयं को उच्च शिक्षा के क्षेत्र में वैश्विक प्रतिस्पर्धा के योग्य बनाना है, तो अनेक महत्वपूर्ण सुधार करने होंगे।

उच्च शिक्षा किसी भी देश के आर्थिक विकास तथा सुसंस्कृत समाज की स्थापना का आधारभूत बिदु होती है। कोई भी राष्ट्र जो विश्व में अपनी अलग पहचान बनाना चाहते हैं व अन्य देशों के विकास के साथ कदम से कदम मिलाकर चलना चाहते है, उनके पास शिक्षा पर निवेश करने के अतिरिक्त दूसरा कोई विकल्प नहीं है। भारतवर्ष में लम्बे समय से शिक्षा एक सामाजिक तथा लोक हितकारी सेवा के रूप मे जानी जाती रही है। यहां उच्च शिक्षा के प्रयास के जो प्रारम्भिक प्रयास हुए उनमें धनी व सम्पन्न व्यक्तियों ने भूमि, भवन तथा धन के रूप में अपना भरपूर योगदान दिया। बनारस हिंदू विश्वविद्यालय इसका ज्वलंत उदाहरण है। भारतवर्ष की उच्च शिक्षा की गौरवशाली परम्परा में तक्षशिला, नालन्दा तथा विक्रमशिला जैसे विश्वविद्यालयों का नाम जुडा हुआ है, जहां पूरे विश्व से विद्यार्थी शिक्षा ग्रहण करने आया करते थे।

स्वतत्रता के समय भारतवर्ष मे केवल 20 विश्वविद्यालय तथा मात्र 500 महाविद्यालय थे। किन्तु वर्तमान समय मे भारतीय उच्च शिक्षा व्यवस्था पूरे विश्व मे दूसरे स्थान पर मानी जा सकती है जिसमे 7 मिलियन से अधिक विद्यार्थी, 3 लाख से अधिक शिक्षक, 298 विश्वविद्यालय तथा 12 हजार से अधिक महाविद्यालय जुड़े हुए है। इसके अतिरिक्त अनेकों राष्ट्रीय महत्व के संस्थान तथा डीम्ड विश्वविद्यालय भी सम्मिलित हैं। साथ ही उच्च शिक्षा पर 400 बिलियन प्रतिवर्ष व्यय किया जाता है।

आज हमारे सामने उच्च शिक्षा के क्षेत्र में अनेक चुनौतयां है। उच्च शिक्षा के क्षेत्र मे मांग के अनुरूप आपूर्ति सुनिश्चित नही हो पा रही है। विश्व में उच्च शिक्षा के क्षेत्र में द्वितीय स्थान पर होने के बावजूद भारतवर्ष में 17 से 24 वर्ष के आयु-वर्ग वाले युवाओं का मात्र 6 प्रतिशत् ही उच्च शिक्षा का लाभ उठा पा रहा है, जबकि फ्रान्स मे 50 प्रतिशत्, अमेरिका मे 81 प्रतिशत् तथा कनाडा मे 99.8 प्रतिशत् विद्यार्थी उच्च शिक्षा का लाभ उठा रहे है। यदि भारतवर्ष को स्वयं वैश्विक प्रतिस्पर्द्धा के योग्य बनाना है तो उच्च शिक्षा में विद्यार्थियों का नामांकन अन्य देशो के समान स्तर पर लाना होगा और वह भी गुणवत्ता तथा स्तर मे समझौता किए वगैर।

उच्च शिक्षा के क्षेत्र में दो प्रकार की चुनौतियां हैं– प्रथम तो देश के अदर से मिलने वाली तथा दूसरी ओर इस क्षेत्र मे मिलने वाली विदेशी प्रतिस्पर्द्धा। एक ओर तो भारतवर्ष मे ऐसे विश्वविद्यालय तथा उच्च शिक्षा संस्थान

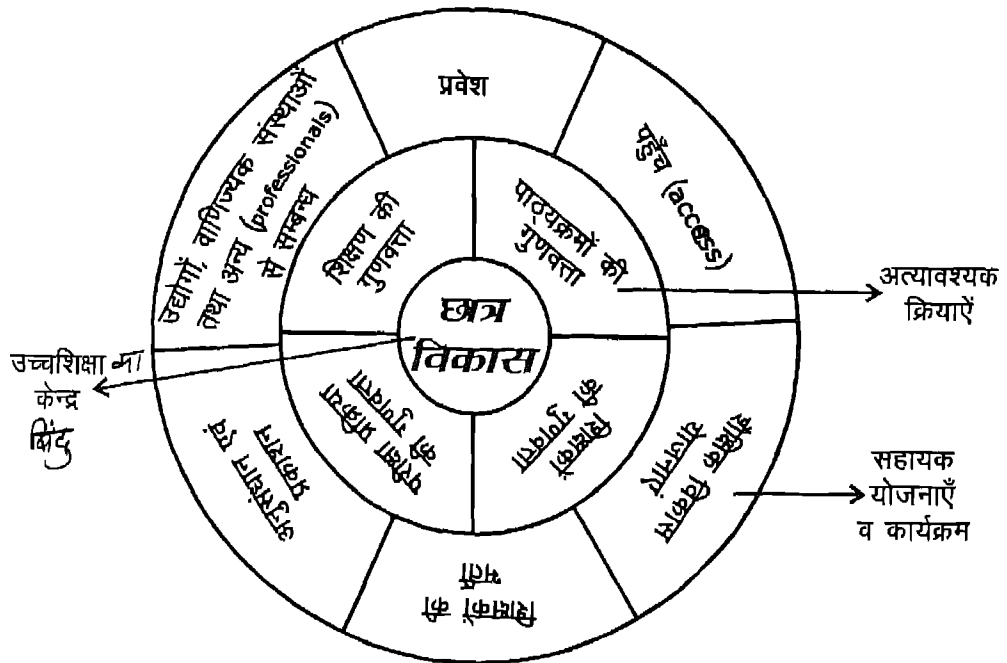
है जो अपनी गुणवत्ता बनाए रखने के लिए अत्यधिक जागरूक व प्रयासरत है। यह गुणवत्ता, चार रूपो मे देखी जा सकती है. पाठ्यक्रम की गुणवत्ता, शिक्षण की गुणवत्ता, शैक्षणिक कर्मियो की गुणवत्ता तथा परीक्षा प्रक्रिया की गुणवत्ता। ये चारो बिन्दु किसी भी उच्च शिक्षा सस्थान के लिए अत्यावश्यक क्रियाओ के रूप मे होते है। इन गुणवत्ताओ को बनाए रखने के लिए सहायक क्रियाओ व योजनाओं के रूप मे शिक्षा संबंधी विकासात्मक योजनाए, प्रवेश, शिक्षकों की भर्ती, अनुसधान तथा प्रकाशन, उद्योग तथा वाणिज्यिक संस्थाओ से सबध आदि सम्मिलित हैं। किन्तु इन सभी कार्यो का उद्देश्य विद्यार्थी का सम्पूर्ण विकास ही होता है।

निम्न वृत्तचित्र से इसे भली-भाति समझा जा सकता है–

हमारे देश में गुणवत्ता के दृष्टिकोण से मुख्यतया उच्च शिक्षा के तीन प्रकार के संस्थान हैं–

- ☐ जहा छात्र का चहुमुखी विकास करना उस संस्था का प्रमुख उद्देश्य होता है। इस हेतु वे सुरक्षात्मक तथा सहायक दोनो ही प्रकार की परिधि संबधी कार्यो पर अपने को केन्द्रित रखते है तथा उनकी गुणवत्ता बनाये रखने के लिए निरन्तर प्रयासरत रहते हैं।
- ☐ ऐसे सस्थान जहां सुविधाए तो है किन्तु उनका पूर्णरूपेण उपयोग नहीं हो पाता है।
- ☐ वे सस्थान जहा उच्च शिक्षा के लिए आवश्यक मूलभूत सुविधाएं ही नही हैं।

शिक्षा के वैश्वीकरण के इस युग में उच्च शिक्षा के क्षेत्र में चुनौतियां विश्व के अन्य राष्ट्रों से भी है। आज उच्च शिक्षा के क्षेत्र में विश्वस्तरीय प्रतिस्पर्द्धा देखने में आ रही है। एक ओर बहुराष्ट्रीय विश्वविद्यालयों की स्थापना हो रही है तो दूसरी ओर विकसित देशों के विश्वविद्यालय विकासशील देशों के विश्वविद्यालयो मे अपने कैम्पस खोल रहे हैं जिनमें अधिकाशत. स्ववित्तपोषी पाठ्यक्रमो का

उच्च शिक्षा में छात्र विकास

सचालन हो रहा है। पश्चिमी देश विकासशील देशो मे अपनी शैक्षिक प्रदर्शनियो का आयोजन करते हैं तथा विदेशी छात्रो को अपने देश में उच्च शिक्षा प्राप्त करने के लिए आकर्षित करते है। मई 2001 में बैंकुवर में इसी तरह का एक विश्व शिक्षा बाजार का आयोजन किया गया जिसमें विश्व के 62 देशों ने भाग लिया तथा अपने-अपने देशों के उच्च शिक्षा सस्थानों की विशिष्टिताओ व सुविधाओ को दर्शाने वाले 'स्टॉल' लगाए। इसी तरह की प्रदर्शनी का आयोजन वर्ष 2002 मे लिस्बन मे भी किया गया। विदेशी छात्र मेजबान देश को फीस के रूप में एक अच्छी धनराशि अदा करते है। इसलिए विकसित देशो ने विदेशी छात्रों की आमदनी के एक उत्तम स्रोत के रूप में पहचान कर ली है। अमेरिका इस स्रोत से लगभग 10,000 मिलियन डॉलर प्रतिवर्ष अर्जित कर रहा है। अन्य विकसित राष्ट्र यथा यूनाइटेड किगडम, जर्मनी, फ्रास, ऑस्ट्रेलिया तथा जापान में भी विदेश से उच्च शिक्षा प्राप्त करने आने वाले विद्यार्थियों का प्रतिशत् काफी है और इन देशो के अच्छे संस्थान तथा उच्च स्तरीय सुविधाओं के चलते यह प्रतिशत् साल-दर-साल बढता ही जा रहा है।

भावी दिशाएं

- शिक्षा के वैश्वीकरण की स्थिति का यदि विकासशील देशो के सदर्भ मे मूल्याकन किया जाए तो भारतवर्ष विश्व का सबसे बडा शिक्षा प्रदान करने वाला देश बन सकता है क्योकि यह सबसे अधिक जनसंख्या वाला प्रजातांत्रिक देश है जो 'विश्व व्यापार सगठन' का सदस्य भी है। जहा अमेरिका तथा इंग्लैंड जैसे विकसित देशो से छात्र उच्च शिक्षा के लिए आते है तो वही केन्या, नेपाल, बाग्लादेश, श्रीलंका, सूडान तथा इथियोपिया से भी बडी सख्या में छात्र आते हैं। भारतवर्ष मे केन्या से सर्वाधिक छात्र उच्च शिक्षा हेतु आते हैं। पूरे विश्व में विदेशो में उच्च शिक्षा में अध्ययनरत छात्रो में सर्वाधिक एशिया से (41 प्रतिशत्) छात्र आते हैं। तत्पश्चात यूरोप (31 प्रतिशत्) तथा अन्य देश (23 प्रतिशत्) के छात्र सम्मिलित है।
- हमारे उच्च शिक्षा सस्थान अपनी आधारभूत सुविधाएं बढ़ाकर तथा गुणात्मक शिक्षा प्रदान कर अन्य एशियाई राष्ट्रो के छात्रों को अधिकाधिक रूप से अपने संस्थानों में प्रवेश हेतु आकृष्ट कर सकते है। यह एक ऐसा प्रयास होगा जो विश्वविद्यालय की आय मे वृद्धि करने वाला सिद्ध होगा तथा विश्वविद्यालयों की आय का महत्वपूर्ण स्रोत हो सकता है।
- विश्वविद्यालय तथा अन्य उच्च शिक्षा संस्थान विश्व के अन्य देशों में अपने दूरस्थ शिक्षा केन्द्र स्थापित कर सकते हैं। विदेशी विश्वविद्यालयो के साथ सहकार्यता स्थापित की जा सकती है। इस सम्बध में मानव ससाधन विकास मंत्रालय ने 'कमेटी फॉर प्रमोशन ऑफ इंडियन एजुकेशन अब्रौड' की स्थापना की है जो इस हेतु नोडल एजेसी के रूप मे कार्य करेगी।
- विश्वविद्यालय ऑफ कैम्पस पाठ्यक्रम अन्य देशों में खोल सकते है। बिट्स, पिलानी ने अपना एक केन्द्र दुबई मे तथा बी आई टी , रांची ने ओमान में अपना केन्द्र खोल रखा है। चूंकि भारतवर्ष की तुलना में अन्य देशो में उच्च शिक्षा शुल्क अधिक है, अत' उसी को आधार बनाकर, इन कैम्पस में भी अधिक शुल्क वसूला जा सकता है।
- उच्च शिक्षा में गैर-परम्परागत स्रोतों के उपयोग से इस क्षेत्र मे लाभ की सभावना को बढाया जा सकता है। वे उद्योग तथा व्यावसायिक प्रतिष्ठान जो उच्च शिक्षा संस्थानो के उत्पाद अर्थात् उच्च शिक्षित व प्रशिक्षित विद्यार्थियों का उपयोग करते हैं, वे उच्च शिक्षा संस्थाओं में कुछ नए पाठ्यक्रम व प्रशिक्षण कार्यक्रम, परामर्श शोध परियोजनाओं द्वारा अपना सहयोग प्रदान कर सकते है। साथ ही ये गरीब किन्तु प्रतिभाशाली छात्रों को अध्ययन हेतु प्रायोजित कर सकते हैं तथा बाद में इन विद्यार्थियो को अपने प्रतिष्ठानों मे सेवायोजित कर सकते है।
- इस दिशा मे अभी हाल में ही भारत सरकार ने सराहनीय कदम उठाते हुए विश्वविद्यालय अथवा उच्च शिक्षा संस्थानों को दान के रूप मे वित्तीय सहायता प्रदान करने वाले उद्योगो को शत्-प्रतिशत् आयकर छूट देने का निर्णय लिया है।

- विश्वविद्यालय में 'विश्वविद्यालय विकास वित्तीय कार्पोरेशन' की स्थापना की जाए, जहां इच्छुक व्यक्ति वित्तीय सहायता के रूप में धन प्रदान कर सके। इस कार्पोरेशन से निर्धन किन्तु प्रतिभाशाली छात्रो को ऋण के रूप मे आर्थिक सहायता प्रदान की जा सकती है जिसे वे बाद में छोटी-छोटी किश्तो मे अदा कर सकते है।
- विश्वविद्यालय अन्य क्षेत्रो में परामर्श सेवाएं प्रदान कर अपनी आय में वृद्धि कर सकता है। उदाहरणार्थ विश्वविद्यालय तथा उच्च शिक्षा संस्थाओं के शिक्षा तथा मनोविज्ञान विभाग युवाओं व वृद्धो हेतु शैक्षिक व व्यक्तिगत निर्देशन सेवा देकर धन अर्जन कर सकते है। इसी तरह तकनीकी विभाग अपने क्षेत्र मे विशिष्ट सेवा प्रदान कर सकते हैं।
- पश्चिमी देशो में बडी सख्या में विश्वविद्यालय प्रकाशन संबंधी कार्यक्रम भी चलाते हैं। विश्वविद्यालय उपयोगी सामग्री का प्रकाशन तथा शिक्षको द्वारा लिखित पुस्तको का प्रकाशन व वितरण का कार्य कर सकते हैं। पूरे देश में विश्वविद्यालयो मे शिक्षको की भारी कमी है। कुछ विश्वविद्यालयो मे तो वर्षो से पद खाली पड़े हैं और उन पर नियमित नियुक्ति न कर निश्चित वेतन पर शिक्षक रख लिए जाते हैं। इन शिक्षकों को पाच से आठ हजार के निश्चित वेतन पर रखा जाता है जो नियमित शिक्षक के वेतन से एक तिहाई ही बैठता है। ऊपरी तौर पर कारण यह बताया जाता है कि कोई भी उपयुक्त शिक्षक नहीं मिल रहा है और इस प्रकार विश्वविद्यालय कम खर्चे में ही काम चला रहे हैं। किन्तु इस प्रवृत्ति से शिक्षा की गुणवत्ता आवश्यक रूप से प्रभावित हो रही है। उच्च शिक्षा की गुणवत्ता बनाए रखने के लिए यह नितान्त आवश्यक है कि विश्वविद्यालय व उच्च शिक्षा सस्थान विश्वस्तरीय शैक्षिक कार्यक्रमो का संचालन व उच्च स्तरीय शिक्षको की नियुक्ति करे।
- उच्च शिक्षा की बढती मांग को देखते हुए विश्वविद्यालय तथा उच्च शिक्षा सस्थान विभिन्न प्रकार के व्यावसायिक व रोजगारपरक स्व-वित्तपोषी कार्यक्रमो का संचालन करें। ये सर्टीफिकेट, डिप्लोमा, स्नातक तथा परास्नातक स्तर के पाठ्यक्रम हो सकते हैं। साथ ही अल्पावधि व दीर्घावधि दोनो ही प्रकार के पाठ्यक्रम हो सकते है, किन्तु शर्त यही है कि ये विद्यार्थी को स्वरोजगार अथवा रोजगार प्रदान करने में सक्षम हों।
- विश्वविद्यालय अपने पुस्तकालयो के प्रयोग की छूट बाहरी व्यक्तियों व सस्थानो को भी दे। पुस्तकालय यदि 24 घंटे खुले रह सके, तब यह संसाधनो के उपयोग की दिशा में सराहनीय प्रयास होगा।
- विश्वविद्यालय तथा उच्च शिक्षा सस्थानों में अपने निर्धारित पाठ्यक्रमो के संचालन से बचे हुए समय मे कुछ अतिरिक्त व उपयोगी पाठ्यक्रमों (जो स्ववित्तपोषी प्रकृति के हो) का सचालन किया जा सकता है। इस प्रकार से विश्वविद्यालय के विभिन्न भवनों, प्रयोगशालाओ व कार्यशालाओं का अधिकतम उपयोग किया जा सकेगा।
- जहा तक सत्र नियमितीकरण का प्रश्न है, तो वह अधिकाशत. नियमित हो चुका है। आवश्यकता इस नियमितीकरण को बनाए रखने की है।
- विश्वविद्यालय के लिए परीक्षाओ की शुचिता बनाए रखना सबसे बडी चुनौती है। यदि कक्षाएं नियमित रूप से चलेगी, कक्षाओं में विद्यार्थियो की उपस्थिति सुनिश्चित होगी तथा शिक्षक सर्वोत्तम व गुणात्मक शिक्षा प्रदान करने के लिए प्रयासरत रहेंगे, तब ऐसे वातावरण का निर्माण होगा, जहा परीक्षाओं की शुचिता स्वमेव बनी रहेगी।

भारतवर्ष में उच्च शिक्षा के विस्तार की असीम संभावनाए हैं। वस्तुत' प्रथमिक शिक्षा के संबंध में जो नई कार्य योजनाए अपनाई गई है उनसे नामांकन मे काफी वृद्धि होगी और यह वृद्धि बाद मे माध्यमिक व उच्च शिक्षा के क्षेत्र में भी दिखाई देगी। जैसा कि महामहिम राष्ट्रपति जी का कथन है कि यदि हमें 2020 तक विकसित राष्ट्र का स्तर प्राप्त करना है तो उच्च शिक्षा में नामांकन के साथ ही गुणवत्ता बनाए रखना अत्यावश्यक होगा। साथ ही अपनी उच्च शिक्षा को वैश्विक प्रतिस्पर्द्धा में रखने के लिए नवीनतम व उपयोगी पाठ्यक्रम, उच्चस्तरीय प्रतिस्पर्द्धात्मक विषय व प्रशिक्षण कार्यक्रम तथा बेहतरीन ढांचागत सुविधाए उपलब्ध कराने का लक्ष्य निर्धारित करना होगा।

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कक्षा में स्वायत्तता प्रबन्धन– कतिपय प्रयास

❑ सरस्वती अग्रवाल

अध्यापक के रूप में नियुक्त होते ही शिक्षक को ऐसी स्वायत्तता प्राप्त हो जाती है जिसके लिए उसे न तो अतिरिक्त संसाधनों की आवश्यकता होती है और न ही विशेष अधिकारों की। अपनी दृढ़ इच्छाशक्ति द्वारा 45 मिनट का पीरियड, एक सत्र तथा सम्पूर्ण अध्यापन काल में इस स्वायत्तता का उचित प्रबन्धन करके अध्यापक स्वयं द्वारा निर्धारित उद्देश्यों की ओर सफलतापूर्वक अग्रसर हो सकता है। इस प्रकार के कतिपय प्रयास कानपुर विद्या मन्दिर महिला (पी.जी.) महाविद्यालय की परास्नातक कक्षाओं में शिक्षा विभागाध्यक्ष द्वारा उद्देश्यों की प्राप्ति हेतु किए जा रहे हैं जिनमें विद्यार्थियों व शिक्षक में सदाचरण का विकास करना; शिक्षक व छात्र में आत्मीयता व घनिष्ठता विकसित करना; परीक्षा को यथासम्भव बोझ रहित स्वरूप देना; उत्तम व्यवहार को सुदृढ़ करना आदि। मुख्य प्रयास इस प्रकार हैं– एक मिनट का मौन, लिखित परीक्षाओं का स्वमूल्यांकन, उपस्थिति लेने के समय छात्राओं से वस्तुनिष्ठ प्रश्न हल करवाना, छात्राओं द्वारा विशेष दिवसों का महाविद्यालय में आयोजन, आन्तरिक मूल्यांकन में सर्वाधिक अंक तथा सत्र में सर्वाधिक उपस्थिति के लिए पुरस्कार, भूतपूर्व छात्राओं को गोष्ठियों में आमंत्रित करना आदि।

शिक्षक के लिए उसकी कक्षा एक ऐसी प्रयोगशाला है जहां वह निरन्तर नवीन प्रयोग करके कक्षा को जीवन्त स्वरूप प्रदान कर सकता है। शिक्षा मे गुणात्मक सुधार करने के इच्छुक शिक्षकों को इस प्रकार की स्वयत्तता के लिए न तो कोई ऐसा मांगपत्र तैयार करने की आवश्यकता है जिसे सरकार के समक्ष रखा जाए और न ही अतिरिक्त ससाधनों की अपेक्षा है जिनकी व्यवस्था प्रबन्ध तंत्र द्वारा की जाए। अपने विचारो को क्रियान्वित करने हेतु यह स्वायत्तता शिक्षक के रूप में नियुक्त होने के पश्चात् उसे स्वय ही प्राप्त हो जाती है। शिक्षण व्यवसाय में अन्तर्निहित अथवा शिक्षण व्यवसाय को अपनाने के पश्चात् स्वत. प्राप्त इस स्वतंत्रता का मात्र 45 मिनट के पीरियड में ही प्रबंधन व नियोजन करके शिक्षक स्वयं द्वारा निर्धारित अधिकांश उद्देश्यो की ओर निश्चित रूप से अग्रसर हो सकता है। इसके लिए आवश्यकता है तो केवल दृढ़ इच्छाशक्ति की। कानपुर विद्या मन्दिर महिला (पी जी.) महाविद्यालय की शिक्षाशास्त्र की परास्नातक कक्षाओ में इस प्रकार की स्वायत्तता का यथासम्भव प्रयोग किया जाता है।

उद्देश्य

- ❑ विद्यार्थियों व शिक्षक में सदाचरण का विकास करना।
- ❑ शिक्षक व छात्र में आत्मीयता व घनिष्ठता विकसित करना।
- ❑ परीक्षा को यथासम्भव बोझ रहित स्वरूप देना।
- ❑ उत्तम व्यवहार को सुदृढ करना।

इन उद्देश्यों की प्राप्ति के लिए प्रवक्ता द्वारा अनेक प्रयास किए जाते हैं।

विद्यार्थियों व शिक्षक में सदाचरण का विकास करना

उच्च शिक्षा विद्यार्थी व शिक्षक के बीच चलने वाली एक सहयोगी प्रक्रिया है, अत दोनो के आचरण मे अपेक्षित गुणों के विकास से शिक्षा की प्रक्रिया का सफल सचालन होता है। विद्यार्थियों व शिक्षक में सदाचरण के विकास हेतु अपनाए गए बिन्दु है–

- छात्र व शिक्षक कक्षा में समय से आएं (घंटी की प्रतीक्षा न करे)।
- उपस्थिति के उपरात प्रतिदिन कक्षा मे 1 मिनट का मौन रखा जाता है।
- मौन के पश्चात् ओइम का उच्चारण करके शिक्षण प्रक्रिया (अध्यापन और अध्ययन) हेतु प्रवक्ता व छात्र दोनों तत्पर होते हैं।
- विद्यार्थियों मे आत्मविश्वास जाग्रत करने के लिए उन्हे कक्षा में पूछे गए प्रश्नों का अधिकाधिक उत्तर देने के लिए प्रेरित किया जाता है। ''आप प्रश्न का उत्तर अवश्य दे, सही व गलत की बिल्कुल चिन्ता न करें। यह सोचकर उत्तर देने का प्रयास करें कि दिया गया उत्तर अधिक से अधिक गलत हो सकता है और इससे ज्यादा कुछ नहीं'' विद्यार्थियों को यह विश्वास दिलाया जाता है कि उनके गलत उत्तर के प्रति कक्षा में शिक्षक या छात्र द्वारा किसी भी प्रकार की नकारात्मक प्रतिक्रिया (उपहास या दण्ड) नहीं होगी।
- विद्यार्थियों के आचरण में नैतिकता का विकास करने के लिए–
  - लिखित परीक्षा का स्वमूल्यांकन (छात्राओं द्वारा) किया जाता है।
  - सभी छात्राओं की मौखिक परीक्षा का मूल्याकन कक्षा की कोई भी दो छात्राए करती है।
- कार्य के प्रति आदर तथा उत्तरदायित्व का भाव जाग्रत करने के लिए प्रतिदिन कक्षा की व्यवस्था छात्राएं करती हैं। अनुक्रमांक के अनुसार प्रतिमाह 8 छात्राएं कक्षा की व्यवस्था– चॉक, डस्टर, श्यामपट कार्य (तिथि, विषय, प्रेरणादायक उक्ति, अध्यापन शीर्षक) आसन व्यवस्था आदि के लिए उत्तरदायी रहती हैं।
- आत्मविश्वास का भाव जाग्रत करने के लिए विद्यार्थियो का महाविद्यालय के कार्यक्रमों मे अधिक से अधिक सहयोग लिया जाता है। 'साक्षरता दिवस' का आयोजन प्रतिवर्ष एम.ए द्वितीय वर्ष की छात्राओं द्वारा तथा गांधी जयती का आयोजन एम.ए. प्रथम वर्ष की छात्राओं द्वारा किया जाता है। इन कार्यक्रमों में विभिन्न प्रतियोगिताए आयोजित की जाती हैं जिसमे पुरस्कार तथा प्रमाण-पत्र का वितरण भी किया जाता है।
- छात्राओं को समय की अमूल्यता का आभास कराने हेतु उन्हें अपने समय का नियोजन करने तथा उस नियोजन का पालन करने हेतु प्रेरित किया जाता है।
- चैत्र प्रतिपदा (नव-विक्रम सवत्) पर विद्यार्थी व शिक्षक कोई संकल्प लेते है जिसका वे अपने जीवन में पालन करने का प्रयास करते हैं। इस सकल्प का वे स्व-मूल्यांकन भी करते हैं।
- छात्राओ को निर्देश दिया जाता है कि वे प्रायोगिक परीक्षा/प्रयोगात्मक परीक्षा मे अपनी योग्यता से अधिक अक पाने के लिए किसी भी प्रकार के गलत तरीके का प्रयोग नहीं करेगी।

शिक्षक व छात्र में आत्मीयता व घनिष्ठता विकसित करना

- कक्षा में छात्राओं की उपस्थिति उनके नाम को पुकार कर ली जाती है। इस प्रकार उपस्थिति में लगने वाले समय का उपयोग वस्तुनिष्ठ परीक्षा लेकर किया जाता है। शिक्षक का कर्तव्य है कि वह छात्र को 'रोल नम्बर' से न बुलाए बल्कि उनके नाम से पुकार कर उनके साथ आत्मीयता का विकास करे। रोल नम्बर से पुकारने मे यात्रिक सबंध स्थापित होता है, जबकि नाम से पुकारने पर घनिष्ठता बढ़ती है।
- प्रतिदिन उपस्थिति, मौन, ओइम के पश्चात् विद्यार्थी कक्षा से संबधित अपनी समस्या को शिक्षक के समक्ष रखने के लिए स्वतंत्र है।
- कक्षा की निर्धन और मेधावी छात्राओ को प्रवक्ता

द्वारा वर्ष भर के लिए पाठ्यपुस्तके दी जाती है।

- विद्यार्थी अपनी व्यक्तिगत समस्या को खाली वेला मे शिक्षक के समक्ष रखने हेतु स्वतत्र है। इन समस्याओं का शिक्षक द्वारा यथासम्भव समाधान किया जाता है।
- महाविद्यालय की पूर्व छात्राओं को 'साक्षरता दिवस' पर तथा अन्य गोष्ठियों में आमंत्रित किया जाता है। इसके लिए सन् 2001 के सत्र से छात्राओं को तीन-तीन पोस्टकार्ड देकर उस पर उनके पते लिखवा कर रख लिए गए है।
- महाविद्यालय की पूर्व छात्राएं भी अपनी समस्याओ के समाधान के लिए प्रवक्ता से सम्पर्क करने हेतु स्वतत्र है।

परीक्षा को यथासम्भव बोझ रहित स्वरूप देना

- छात्राओं को अपनी समय-सारणी के अनुसार प्रतिदिन घर मे नियमित अध्ययन हेतु प्रेरित किया जाता है।
- छात्राए सत्र के प्रारम्भ मे 3 उत्तर पुस्तिकाए बनाती हैं, जिन्हे वे प्रतिदिन महाविद्यालय लाती है–
  - वस्तुनिष्ठ प्रश्नो को लिखने के लिए।
  - कक्षा कार्य के लिए।
  - परीक्षण के लिए (चालीस पेज की कापी)
- सप्ताह में 2-3 बार छात्राओ को उपस्थिति लेने के पूर्व 5 वस्तुनिष्ठ प्रश्न लिखित रूप से दिए जाते हैं तथा उपस्थिति के पश्चात् उन प्रश्नो के उत्तर छात्राओं से पूछकर/स्वयं बताकर छात्राओ से प्रश्नो का स्वमूल्यांकन कराया जाता है। 2-3 छात्राओ की उत्तर पुस्तिका की जांच प्रवक्ता द्वारा कर ली जाती है। कभी-कभी उत्तर पुस्तिकाओं को छात्राओं के बीच बदलवा कर छात्राओं से ही मूल्यांकित कराया जाता है।
- सभी विद्यार्थियो के अधिकाश परीक्षण के अको को उपस्थिति रजिस्टर के पीछे के पेज मे तिथि सहित रिकार्ड कर लिया जाता है। सत्र के अन्त में सर्वाधिक अंक पाने वाली 3 छात्राओ को पुरस्कृत किया जाता है।
- मौखिक परीक्षा में प्रवक्ता द्वारा दिए गए शीर्षक पर एक छात्रा प्रश्न पूछती है तथा दूसरी छात्रा उसका उत्तर देती है। प्रश्न पूछने व उत्तर देने, दोनो पर अक दिए जाते हैं।
- कभी-कभी प्रवक्ता द्वारा छात्राओं को पहले दिन एक शीर्षक दे दिया जाता है, जिस पर दूसरे दिन प्रत्येक छात्रा को कम से कम एक मिनट मे अपने विचारो को व्यक्त करना होता है। इसका मूल्यांकन कक्षा की कोई भी दो छात्राएं करती हैं।
- कभी-कभी छात्राएं स्वयं किसी शीर्षक का चुनाव करके एक या दो मिनट अपने विचार व्यक्त करती है। इसका भी मूल्याकन छात्राओ द्वारा किया जाता है।
- दीर्घ उत्तर परीक्षा के लिए छात्राओं को घर से केवल एक प्रश्न तैयार करके आना होता है जिस हेतु, कक्षा मे 40 मिनट में लिखने का अभ्यास छात्राओं को कराया जाता है।
- लघु उत्तर परीक्षा के लिए छात्राओ को केवल एक छोटा-सा शीर्षक याद करने के लिए दिया जाता है जिसे कक्षा में वे 6 मिनट मे लिखने का अभ्यास करती हैं। प्रवक्ता का यह अनुभव है कि परीक्षण के लिए अधिक विषय-वस्तु देने से अपेक्षित लाभ नहीं मिलता, बल्कि छात्राए एक तरफ तो तनावग्रस्त हो जाती है और दूसरी तरफ उनमें कक्षा में अनुपस्थित रहने की प्रवृत्ति बढती है।
- प्रवक्ता की एम.ए. उत्तरार्द्ध मे दो वेला लगती हैं जिसमें प्रायः एक वेला में अध्यापन तथा दूसरी वेला मे उसी से सबंधित लिखित या मौखिक परीक्षा ली जाती है।

इस प्रकार समयबद्ध परीक्षण, विभिन्न प्रकार के वस्तुनिष्ठ प्रश्न, रचनात्मक मौखिक परीक्षा, शीघ्र मूल्यांकन, स्वमूल्यांकन तथा अत्यन्त अल्प विषय-वस्तु पर परीक्षा लेकर परीक्षा को बोझ रहित स्वरूप देने का प्रयास किया जाता है।

उत्तम व्यवहार को सुदृढ़ करना

विद्यार्थियो में उत्तम व्यवहार को दृढ़ता प्रदान करने के लिए

अंक, प्रमाण-पत्र, पुरस्कार, कक्षा में पहचान, विद्यार्थियो को महत्वपूर्ण कार्य देना आदि उत्प्रेरको का सतुलित प्रयोग किया जाता है–

- ☐ स्वतंत्रता दिवस, गणतंत्र दिवस व सगोष्ठियों मे विद्यार्थियो की उपस्थिति ली जाती है तथा इसके लिए उन्हें मौखिक व प्रायोगिक परीक्षा मे अतिरिक्त अंक दिए जाते हैं।
- ☐ वर्ष भर मे सर्वाधिक उपस्थित रहने वाली छात्रा को पुरस्कृत किया जाता है।
- ☐ वर्ष भर होने वाले निरन्तर मूल्याकन मे सर्वाधिक अक प्राप्त करने वाली 3 छात्राओ को पुरस्कार दिया जाता है।
- ☐ 'साक्षरता दिवस' और 'गाधी जयती' पर सम्पादित विभिन्न प्रतियोगिताओ मे विजयी छात्राओं को पुरस्कार दिया जाता है।
- ☐ सर्वोत्तम स्वमूल्यांकन करने वाली छात्रा के नाम की घोषणा कक्षा मे की जाती है।
- ☐ दैनिक परीक्षा में सर्वाधिक अंक पाने वाली छात्राओ के नाम की घोषणा की जाती है।

परिणाम

शिक्षा में किए गए किसी भी प्रयोग के परिणाम अति शीघ्र प्राप्त नही होते, परन्तु उपरोक्त प्रयोग के फलस्वरूप प्राप्त कुछ सकारात्मक परिणाम इस प्रकार है–

- ☐ कक्षा में परीक्षण के कारण होने वाली अनुपस्थिति में कमी आई है।
- ☐ छात्राओं में परीक्षण के नाम से उत्पन्न होने वाला भय कम हुआ है और परीक्षा को टालने की प्रवृत्ति घटी है।
- ☐ कभी-कभी यह भी देखा जाता है कि छात्राए स्वय प्रवक्ता को परीक्षण का स्मरण कराती है।
- ☐ प्रारम्भ मे जो छात्राएं शिक्षण के समय तथा प्रश्नोत्तर के समय कक्षा में अत्यन्त उदासीन दिखाई देती हैं, वे भी कक्षा में रुचि लेती हैं और अधिक सक्रिय दृष्टिगत होती हैं।
- ☐ छात्राए अपनी व्यक्तिगत तथा कक्षागत समस्या खुलकर शिक्षक के समक्ष रखती है।
- ☐ महाविद्यालय की भूतपूर्व छात्राए विभिन्न कार्यक्रमों मे सम्मिलित होती है।
- ☐ राष्ट्रीय पर्वो मे शिक्षाशास्त्र की छात्राओ की उपस्थिति सर्वाधिक रहती है।
- ☐ विश्वविद्यालय द्वारा सम्पादित मौखिक व लिखित परीक्षा मे छात्राओं द्वारा प्राप्त अंकों मे अन्तर बहुत कम रहता है।

आगामी योजना

- ☐ इस सत्र से परास्नातक द्वितीय वर्ष की छात्राओ को मार्च के महीने में उनकी अग्रिम कार्य योजना/शिक्षण/प्रशिक्षण हेतु प्रवक्ता द्वारा जानकारी दी जाएगी जैसे– नेट, सेट, बी.एड, कम्प्यूटर शिक्षा, दूरस्थ शिक्षा आदि।
- ☐ परिवार, व्यवसाय और समाज मे छात्राओ के समायोजन तथा उपलब्धियो के विषय में शिक्षक द्वारा जानकारी रखी जाएगी।

सुझाव

प्रवक्ता का यह सुझाव है कि–

- ☐ इस स्वायत्तता का प्रयोग कुछ कठिन अवश्य प्रतीत हो सकता है, परन्तु असम्भव नही है।
- ☐ यदि कक्षा मे विद्यार्थियो की सख्या अधिक हो तो प्रतिदिन कम से कम 50 विद्यार्थियों की उपस्थिति उनके नाम से ली जा सकती है।
- ☐ अपने महाविद्यालय की विशेष परिस्थितियों तथा स्वय द्वारा निर्धारित उद्देश्यों के अनुसार, शिक्षक अपने व्यवसाय में अन्तर्निहित स्वायत्तता को क्रियान्वित करने के प्रयास कर सकते है।

एक सत्र में यदि 1 प्रतिशत् विद्यार्थियों में भी कुछ सकारात्मक परिवर्तन आते है, तो यह शिक्षक की स्वायत्तता का उचित प्रबंधन होगा। ☐☐

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विज्ञान संचार– क्या, क्यों, कैसे?

❑ प्रतापमल देवपुरा

विज्ञान लोकप्रियकरण का दूसरा पहलू है, वैज्ञानिक दृष्टिकोण का विकास। विज्ञान की जानकारी प्राप्त कर लेना, वैज्ञानिक दृष्टिकोण पा लेना नहीं है। हो सकता है, विज्ञान पढ़े-लिखे व्यक्ति में वैज्ञानिक दृष्टिकोण की कमी हो, जबकि विज्ञान न पढ़े-लिखे व्यक्ति में प्रचूर वैज्ञानिक दृष्टिकोण हो। वैज्ञानिक दृष्टिकोण किसी व्यक्ति की तर्कशील सोच, विश्लेषणात्मक अभिव्यक्ति, क्रमबद्ध और सुव्यवस्थित तौर-तरीकों, उपयुक्त आचार-व्यवहार और उत्कृष्ट कार्य पद्धति तथा विवेकशील निर्णय लेने की क्षमता को प्रतिबिंबित करता है। कहने का तात्पर्य यह है कि वैज्ञानिक दृष्टिकोण से सुसंपन्न व्यक्ति के काम करने के ढंग, तौर-तरीकों, सोच, आचरण और व्यवहार तथा निर्णय लेने की प्रक्रिया पर विज्ञान विधि की स्पष्ट छाप दिखनी चाहिए। विज्ञान विधि को हम पांच चरणों में बांट सकते हैं– जिज्ञासा; जानकारी एकत्र करना; विश्लेषण; प्रायोगिक सत्यापन; तथा निष्कर्ष।

'विज्ञान सचार' वैज्ञानिक सूचनाओ और वैज्ञानिक विचारों को उनके स्रोत से लेकर लक्ष्य वर्ग तक पहुंचाने की प्रक्रिया के रूप मे जाना जाता है। विज्ञान संचार को हम प्रायः दो वर्गो मे बांट सकते है– पहला शोधपरक विज्ञान संचार, और दूसरे को लोकप्रिय विज्ञान संचार के नाम से जानते हैं। पहले वर्ग के विज्ञान का जन्म प्रयोगशालाओं, अनुसंधान/विकास केन्द्रो, विश्वविद्यालयों और प्रौद्योगिकी संस्थानो आदि मे होता है। प्रौद्योगिकी के बारे में पहले शोधपत्र के माध्यम से जानकारी प्राप्त होती है। यह जानकारी गहन तकनीकी भाषा और प्रायः अंग्रेजी में होती है। इस प्रकार के लेखन, प्रकाशन और संचार को शोधपरक विज्ञान सचार के रूप मे जाना जाता है।

ज्यादातर वैज्ञानिक और प्रौद्योगिकीविद् आम आदमी की भाषा में संप्रेषित करने में स्वय को असमर्थ पाते हैं। वहीं आम आदमी भी विज्ञान की गूढ और तकनीकी भाषा में उपलब्ध जानकारी को समझने मे सक्षम नही हो पाता। इस प्रकार यह समस्या उभरकर आती है कि प्राय वैज्ञानिक वर्ग आम आदमी की भाषा नही जानता और आम आदमी वैज्ञानिक की भाषा नही जानता। यहीं विज्ञान की जानकारी और आम आदमी के बीच एक खाई बन जाती है जो प्रतिदिन तेजी से बढती जा रही है।

इस खाई को पाटना जरूरी है, क्योकि कोई भी वैज्ञानिक ज्ञान और प्रौद्योगिकी तब तक व्यर्थ है, जब तक उसकी जानकारी और लाभ आम लोगो तक नही पहुंचते। यह एक चुनौती भरा कार्य है। इसके लिए ऐसे व्यक्तियों की आवश्यकता है, जिनकी विज्ञान मे रुचि हो और जो जटिल विज्ञान के विषयों को समझकर उसे सरल, आम बोलचाल की भापा में प्रस्तुत कर सकें। इन्हें हम विज्ञान सचारक, या विज्ञान पत्रकार आदि कह सकते है। क्या किसी लोकप्रिय विज्ञान सचारक को विशेषज्ञ होना चाहिए या नही? आम मान्यता यह है कि विषय विशेषज्ञ होना जरूरी नहीं है, लेकिन यदि

विशेषज्ञ है तो इससे आसानी होगी। वास्तविक योग्यता विषय को समझने, आत्मसात् करने और सरल भाषा में प्रस्तुत करने की होनी चाहिए।

विज्ञान सचारक वर्ग विकसित करने के लिए देश में राष्ट्रीय विज्ञान सचार संस्थान की तरफ से तीन स्तरों पर शिक्षण-प्रशिक्षण कार्यक्रम चलाए जा रहे है— ● अल्पकालिक पाठ्यक्रम, ये तीन से सात दिनों की अवधि के होते हैं, जिनमे ऐसे सभी व्यक्ति भाग ले सकते हैं, जिनकी रुचि विज्ञान संचार में है, भले ही जिन्होंने विज्ञान की नियमित या उच्च शिक्षा न पाई हो, ● मध्यकालिक पाठ्यक्रम, ये कार्यक्रम दो से छः माह की अवधि के होते है। ये खासतौर पर ऐसे व्यक्तियों के लिए हैं, जो अपनी विज्ञान संचार क्षमता को और निखारना चाहते हैं; और ● दीर्घावधि पाठ्यक्रम, ये एक से दो वर्ष की अवधि के होते हैं, जो विश्वविद्यालयों या शैक्षिक सस्थानो मे चलाए जाते है। इसके अलावा विज्ञान पत्रकारिता में एक वर्षीय पत्राचार पाठ्यक्रम भी शुरू किए गए है। इस प्रकार विज्ञान संचार के विभिन्न पहलुओ पर प्रशिक्षित जनशक्ति तैयार करने के प्रयास किए जा रहे हैं, ताकि भविष्य की विज्ञान संचार आवश्यकताओं को पूरा किया जा सके।

विज्ञान संचार क्या है?

विज्ञान और प्रौद्योगिकी संचार, विज्ञान और प्रौद्योगिकी की अपेक्षाकृत एक नई शाखा है, जिसके अंतर्गत आम तौर पर वैज्ञानिक और प्रौद्योगिक अनुसधान की जानकारी को लोगो तक पहुचाने और उनमें वैज्ञानिक दृष्टिकोण विकसित करने की विभिन्न तकनीको, उपायों, विधियो, माध्यमों तथा इनके प्रभाव और इनसे जुडे अन्य पहलुओ का अध्ययन किया जाता है।

हालाकि अभी भी देश मे 'विज्ञान सचार' एक स्वतत्र विषय के रूप मे और ज्ञान की एक विशिष्ट प्रशाखा के रूप में स्थापित होने की अपनी शैशवावस्था में है, विज्ञान और प्रौद्योगिकी की विभिन्न शाखाओं की भाति ही, विज्ञान संचार अपने आप मे विभिन्न उप विषयो पर अधिक अनुसधान और विकास करने हेतु उन्हे अधिक सशक्त बनाने की आवश्यकता है।

विज्ञान सचार वह कुजी है, जो जनोपयोगी ज्ञान विज्ञान के खजाने का ताला खोलकर विज्ञान की जानकारी और वैज्ञानिक दृष्टिकोण के लाभो को जनता तक पहुंचा सकती है और उन्हे विज्ञान और प्रौद्योगिकी के क्षेत्र मे हो रहे नए विकासो के प्रति जागरूक बना सकती है, ताकि वे भूख, बीमारी, अधविश्वास और अज्ञान के सत्रास का सामना साहस और आत्मविश्वास के साथ करने में सक्षम हो सकें।

विज्ञान संचार के उद्देश्य व महत्व

विज्ञान सचार के दो प्रमुख उद्देश्य हैं— विज्ञान और प्रौद्योगिकी की जानकारी लोगो तक पहुचाना और उनमे वैज्ञानिक और प्रौद्योगिक दृष्टिकोण विकसित करना।

जैसा कि हम जानते है, सूचना ही शक्ति है, जिसके पास जानकारी है, ज्ञान है, सूचना है, वही शक्तिशाली है। आम लोगो मे वैज्ञानिक जन जागरूकता फैलाकर समाज को और अधिक सशक्त व सबल बनाया जा सकता है। छोटी-छोटी वैज्ञानिक जानकारी भी बडे काम की साबित हो सकती है जैसे यदि दाल को पकाने से पहले कुछ देर पानी मे भिगो दिया जाए तो इसमे लगने वाला समय कम हो जाएगा, लगभग 50 प्रतिशत् ऊर्जा भी बचाई जा सकती है। यदि इसी छोटी-सी जानकारी को ही देश मे फैलाया जाए, तो रसोईघरों मे लगने वाली कुछ ऊर्जा को बचाया जा सकता है।

वैज्ञानिक दृष्टिकोण और विज्ञान विधि

विज्ञान सचार और विज्ञान लोकप्रियकरण के माध्यम से न केवल हमारे संविधान और विज्ञान नीति की मूल भावना का आदर करते हुए विज्ञान के प्रचार-प्रसार और वैज्ञानिक दृष्टिकोण विकसित करने के उद्देश्यो को पूरा किया जा सकता है, बल्कि देश को आत्मनिर्भर, मजबूत और खुशहाल बनाने मे इसकी महत्वपूर्ण भूमिका हो सकती है, यहा तक कि अनेक विवादो और संघर्षो के समाधान भी वैज्ञानिक दृष्टिकोण द्वारा खोजे जा सकते हैं। यदि पहले से ही वैज्ञानिक दृष्टिकोण और विज्ञान

विधि के सामान्य सिद्धातो का पालन किया जाए तो विवाद या सघर्ष की स्थितियो को पैदा होने से रोका जा सकता है।

विज्ञान लोकप्रियकरण का दूसरा पहलू है, वैज्ञानिक दृष्टिकोण का विकास। विज्ञान की जानकारी प्राप्त कर लेना, वैज्ञानिक दृष्टिकोण पा लेना नही है। हो सकता है, विज्ञान पढे-लिखे व्यक्ति मे वैज्ञानिक दृष्टिकोण की कमी हो, जबकि विज्ञान न पढ़े लिखे व्यक्ति मे प्रचूर वैज्ञानिक दृष्टिकोण हो। वैज्ञानिक दृष्टिकोण किसी व्यक्ति के तर्कशील सोच, विश्लेषणात्मक अभिव्यक्ति, क्रमबद्ध और सुव्यवस्थिता तौर तरीकों, उपयुक्त आचार-व्यवहार और उत्कृष्ट कार्य पद्धति तथा विवेकशील निर्णय लेने की क्षमता को प्रतिबिबित करता है। कहने का तात्पर्य यह है कि वैज्ञानिक दृष्टिकोण से सुसंपन्न व्यक्ति के काम करने के ढंग, तौर-तरीको, सोच, आचरण और व्यवहार तथा निर्णय लेने की प्रक्रिया पर विज्ञान विधि की स्पष्ट छाप दिखनी चाहिए। विज्ञान विधि को हम पाच चरणो मे बांट सकते है— ● जिज्ञासा; ● जानकारी एकत्र करना; ● विश्लेषण, ● प्रायोगिक सत्यापन, तथा ● निष्कर्ष।

यही पद्धति अपना कर वैज्ञानिक कोई अनुसंधान कार्य करते हैं। दैनिक जीवन में भी हम रोजमर्रा के निर्णय लेने में इसी पद्धति का प्रयोग करते है। लेकिन कभी-कभी विश्लेषण और प्रयोग वाले चरणो को छोड़ देते है और सुनी सुनाई वातों को ज्यो का त्यो मान लेते हैं। यदि हम उसकी सच्चाई की आजमाइश और परख करने के बाद अपना निष्कर्ष स्वयं निकाले, तो हमारे निर्णय ज्यादा सही और उपयुक्त होगे।

विज्ञान संचार के पंच तत्व

लोकप्रिय विज्ञान सचार चाहे जिस किसी भी वैज्ञानिक विषय को लेकर हो, किसी भी माध्यम के द्वारा हो, किसी भी लक्ष्य वर्ग के लिए हो, किसी भी विधा मे हो या किसी भी भाषा में हो, उसमें लोकप्रिय विज्ञान संचार के पांच मूल तत्व अवश्य होने चाहिए।

● **वैज्ञानिक विषय-वस्तु**— उसमे कोई न कोई सारगर्भित विज्ञान की जानकारी या वैज्ञानिक विचार अवश्य होना चाहिए। आमतौर पर ज्यादातर लोग विज्ञान संचार के नाम पर विज्ञान शब्द का नाम तो लेते हैं, लेकिन विषय के बारे मे पर्याप्त जानकारी नही बताते। वे विज्ञान के बारे मे बात करते हैं, विज्ञान पर बात नही करते। उदाहरण के लिए वैज्ञानिक अनुसधान के लिए दिए जाने वाले शाति स्वरूप भटनागर पुरस्कार के समाचार मे यदि सिर्फ यह कह दिया जाता है कि 'अमुक वैज्ञानिक को भव्य समारोह मे यह पुरस्कार प्रदान किया गया। इस अवसर पर मुख्य अतिथि ने कहा . वगैरह वगैरह। सिर्फ इतना लिखने से यह विज्ञान समाचार नही बन जाता। यह विज्ञान समाचार तभी कहलाएगा, जब इसमें पुरस्कार पाने वाले वैज्ञानिक ने जो अनुसधान कार्य किया उसके बारे मे कम से कम इतनी जानकारी अवश्य दी गई हो कि उसे पढकर यह समझा जा सके कि वह कार्य किस प्रकार का था और उस कार्य से भविष्य में क्या कुछ नया लाभ होगा। विज्ञान लोकप्रियकरण के किसी भी प्रयास मे वैज्ञानिक विषय-वस्तु का तत्व अवश्य होना चाहिए।

● **भाषा शैली/प्रस्तुतीकरण**— लोकप्रिय विज्ञान संचार हेतु भाषा शैली प्रवाहपूर्ण, सरल और स्पष्ट होनी चाहिए। आम बोलचाल की भाषा का इस्तेमाल उपयुक्त होगा। भाषा शुद्ध, एकरूप और लयबद्ध होने से लक्ष्य वर्ग को समझने मे आसान होगी और उसका मन भी लगेगा।

● **क्यो और कैसे?**— विज्ञान और प्रौद्योगिकी सचार में 'क्यो और कैसे' का बहुत महत्व है। बिजली क्यों चमकती है? वर्षा कैसे होती है? कोई यत्र कैसे काम करता है? आदि सामान्य जिज्ञासा के प्रश्न है। जिस किसी भी विषय का सचार करना है, उस विषय के विभिन्न भागों, उपभागो मे निहित क्यों और कैसे के प्रश्नों को खोजकर उनके उत्तर देने का प्रयास करने से विषय स्वत. बोधगम्य हो जाएगा और गूढ विज्ञान के विषय आसानी से समझ में आ जाएगे।

● **विश्लेषण**— आजकल विश्लेषणात्मक और तथ्यात्मक

जानकारी का वहुत महत्व व मांग है। ऐसे टी.वी चैनल व समाचार-पत्र ज्यादा चलते है, जो नीर, क्षीर, विवेक के आधार पर विश्लेषण करके दूध का दूध और पानी का पानी करने मे या तो खुद समर्थ होते हैं, या पाठकों को ऐसा सूत्र देते है, जिससे वे वास्तविकता तक पहुंच सके। अत· विज्ञान लेखन और विज्ञान सचार मे गतिशीलता और जागरूकता लाने के लिए यह आवश्यक है कि विषय का विश्लेषणात्मक पहलू अवश्य दिया जाए।

- **रोचकता**– उपरोक्त सभी तत्वो के साथ-साथ विज्ञान लोकप्रियकरण का एक और महत्वपूर्ण तत्व है– रोचकता। जिनके लिए विज्ञान लोकप्रियकरण का कार्य किया जा रहा है, उनको आकर्षित करना और वांधे रखना बहुत जरूरी है। अन्यथा वे रेडियो पर विज्ञान कार्यक्रम सुनने की बजाए विविध भारती सुनना ज्यादा पसद करेगे। रोचकता के साथ-साथ विषय की उपयोगिता भी वहुत आवश्यक है। आमतौर पर वही विषय ज्यादा पसद किए जाते हैं, जिनकी माग और उपयोगिता हो। सामयिकता का पुट भी जरूरी है। उदाहरण के लिए, यदि भूकंप के तुरंत वाद भूकप से सवधित कोई भी जानकारी दी जाएगी तो वह न केवल सामयिक होगी, वल्कि भूकंप प्रभावित क्षेत्रो के लिए उपयोगी भी होंगी। विज्ञान सचार मे प्रामाणिक जानकारी का विशेष महत्व होता है। गलत जानकारी देने से अच्छा है जानकारी न देना। इसलिए किसी भी विज्ञान संचार के काम में रोचकता, सामयिकता, उपयोगिता, स्पष्टता और प्रामाणिकता का ध्यान रखा जाना आवश्यक है।

विज्ञान संचार के लिए क्या करें?

विज्ञान सचार सबधी अनेक कार्यक्रम विभिन्न सस्थाओ द्वारा समय-समय पर आयोजित किए जाते हैं जिनमे विज्ञान प्रदर्शनिया, कार्यशालाएं, सगोष्ठियां आदि प्रमुख हैं। कई बार यह फर्क करना मुश्किल हो जाता है कि आप किसी कार्यशाला मे भाग ले रहे है या संगोष्ठी में। पहले मुख्य अतिथि का भाषण हो रहा है या अध्यक्ष महोदय का। विज्ञान प्रदर्शनियो में भी बच्चे प्राय· वही मॉडल ले आते है, जो पहले कई बार प्रदर्शित हो चुका है। कभी-कभी यह वताया जाता है कि ट्यूब लाईट सौर ऊर्जा से जल रही है, जबकि वह मॉडल मे छिपी बैटरी से जलती है। ऐसे प्रयासों से हम क्या हासिल करना चाहते हैं। इन सभी वातो पर विचार करना होगा, तभी हम विज्ञान सचार के महत्वपूर्ण और सारगर्भित कार्य को अधिक विवेकशील तरीके से और अधिक जिम्मेदारी से पोषित, पल्लवित और पुष्पित कर सकेंगे।

हमारे विद्यालय विज्ञान संचार के लिए उपयुक्त स्थल है। 6 लाख से भी अधिक गांवों मे फैला हमारा देश वहुत वडा है। यदि इन गावो में फैले स्कूलो में विज्ञान संचार द्वारा वैज्ञानिक दृष्टि के वीज उगा दिए जाएं तो आगे चलकर वहां से निकले वच्चो मे विज्ञान स्वतः पल्लवित, पुष्पित होता रहेगा। इस कार्य को करने मे हमारे शिक्षको को विज्ञान संचारक की भूमिका का निर्वाह करना होगा व इस कार्य को कुशलतापुर्वक सम्पन्न करने के लिए अपने आपको भी वैज्ञानिक दृष्टिकोण अपनाकर सक्षम, समर्पित होकर तैयार रहना होगा।

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परिषद् की "भारतीय आधुनिक शिक्षा" एवं "प्राइमरी शिक्षक" त्रैमासिक पत्रिकाओं के ग्राहकों, पाठकों तथा लेखकों से निवेदन

राष्ट्रीय शैक्षिक अनुसधान और प्रशिक्षण परिषद् की उपर्युक्त उल्लेखित दो त्रैमासिक पत्रिकाएं शिक्षा जगत में राष्ट्रीय स्तर तथा राज्य स्तर पर हो रहे अनेक प्रयोगो, अनुसंधानो, कार्यक्रमों व गतिविधियों को पाठकों तक पहुंचाने के सुगम माध्यम हैं। इन पत्रिकाओं का प्रकाशन विशेष रूप से विद्यालयी शिक्षा के क्षेत्र में कार्यरत शिक्षाविदों, शिक्षकों, शिक्षक-प्रशिक्षकों तथा पाठ्यक्रम निर्माताओं को समर्पित है। इनके प्रत्येक संस्करण मे ऐसे नवीनतम लेखों के प्रकाशन को प्राथमिकता दी जाती है जो शैक्षिक नीतियों से संबधित हों, गुणात्मक सुधार की दिशा में उल्लेखनीय प्रयोग हों, अधिगम को सुरुचिपूर्ण तथा ग्राह्य बनाने की दिशा में निजी अनुभव अथवा शोध कार्य हों, विभिन्न शैक्षिक कार्यक्रमों के विवरण हों, शिक्षण-प्रशिक्षण सबंधी प्रभावी सामग्री हो। शैक्षिक उपयोगिता की दृष्टि से ये पत्रिकाएं अत्यन्त महत्वपूर्ण है तथा परिषद् इन्हें मूल लागत से भी बहुत कम कीमत पर पाठकों को उपलब्ध कराती है।

इन पत्रिकाओं के लिए उत्कृष्ट स्तर के शिक्षाप्रद प्रभावी लेख सहर्ष स्वीकार किए जाते हैं तथा उनके प्रकाशन के उपरांत समुचित मानदेय देने की भी व्यवस्था है। लेख की विषय-वस्तु 2500 से 3000 शब्दो या अधिक टंकित रूप में होना वांछनीय है। कृपया अपने लेख निम्न पते पर भेजें :

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राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद्
श्री अरविन्द मार्ग, नई दिल्ली–110 016

अध्यक्ष, प्रकाशन प्रभाग द्वारा राष्ट्रीय शैक्षिक अनुसधान और प्रशिक्षण परिषद्, श्री अरविन्द मार्ग, नई दिल्ली 110 016 के लिए प्रकाशित तथा जैन कम्प्यूटर, शकरपुर, दिल्ली द्वारा टाइपसैट होकर गीता ऑफसेट, सी-90, ओखला इण्डस्ट्रियल एरिया, फेस-I, नई दिल्ली 110 020 द्वारा मुद्रित।

U. S. GOVERNMENT AID TO STUDENTS, 1936-37

Type of Institution	Institutions		Student Quota		Monthly Allocations	
	No	Per Cent	No	Per Cent	Amount	Per Cent
Totals	1,656	100.0	119,219	100.0	$1,708,755	100.0
Public	618	37.3	66,420	55.7	979,168	55.3
Private	995	60.1	52,108	43.7	779,337	44.1
Unknown	43	2.6	691	0.6	10,250	0.6
Universities, Colleges, or Technical Schools	911	55.0	88,000	73.8	1,315,092	71.1
Teachers' Colleges or Normal Schools	263	15.9	18,260	15.3	202,404	14.8
Junior Colleges	439	26.5	12,259	10.3	180,919	10.2
Unknown	43	2.6	691	0.6	10,250	0.6

and technical schools absorbing about three-fourths of the total monthly allocations

Federal Health Expenditures. The Federal expenditures for public health fall under the Federal Security Agency and include such services as the prevention of epidemics and their spread, the regulation of the propagation and sale of viruses, serums, and toxins; the preparation of curative and diagnostic biologics; a study of venereal diseases and mental hygiene; maintenance of a National Cancer Institute and quarantines; and education on matters pertaining to public health[7] Much of this expenditure for health is done through the Department of the Treasury. The federal government also co operated with state and municipal health authorities in the prevention of the spread of contagious and infectious diseases in interstate traffic by establishing an interstate quarantine service

One of the greatest perils to public health at present is venereal disease. The federal government has seen fit to establish a Division of Venereal Disease in the Department of Public Health Service and also a Division of Mental Hygiene Under the provisions of the National Cancer Institute Act, the federal government has been allocating some four hundred thousand dollars annually among research centers, chiefly schools of medicine, for the control and the discovery of a cure for cancer Since the close of World War II, the federal government has been making available radioactive isotopes, from the laboratories at Oak Ridge, Tennessee, to hospitals and schools of medicine for treatment and research Some of this material has been sent as far away as Europe and Australia

[7]See The federal budget for 1949, page 185 to 211

The expansion of the federal health program through the increase of co-operative work with the states, under the administration of Title VI of the Social Security Act, has resulted in a wider range of activities in all divisions of the Public Health Service Under Section 601 of Title VI of this Act of August 14, 1935, an appropriation of $8,000,000 was authorized for each fiscal year, beginning with 1936, to assist states, territories, counties, health districts, and other political subdivisions in providing more adequate public health services For the fiscal year of 1937, there was added $881,859.21 to the above allocation, making a total of $8,881,859.21 available for distribution.[8] The major purposes for which the states budgeted the allotments during the fiscal year 1937 are shown in the table on page 57.[9] It will be noticed that Local Health Service was accepted by about all the states, and absorbed over 41 per cent of the total allocation. While Training of Public Health Workers received a little less than 16 per cent, it covered a wider area, including non-contiguous territory

The results of this stimulus to public health work by such social security legislation are very promising. Of 3,069 counties in the United States, 946 have full-time health service, which represents an increase of more than 50 per cent over January 1, 1935. State and local annual appropriations for this work are now $7,500,000 more than they were in the fiscal year 1935.

In order to carry out the provisions of Section 603 of the Social Security Act, a federal appropriation of $1,320,000 was made to the Public Health Service for the fiscal year 1937 for investigation of disease and problems of sanitation The co-operative work of the Division of Venereal Diseases with state and local health departments was expanded under the provisions of the Social Security Act An aroused public interest in the great prevalence and the serious consequences of syphilis and gonorrhea and the growing eagerness for full information and free discussion of these subjects are encouraging signs of progress in the control of these diseases. The co-operation of the press and radio in lending their facilities for the dissemination of clear and precise information on these topics has been of inestimable value. This change of attitude on

[8]For the amount allotted to each state, District of Columbia, Alaska, and Hawaii for the fiscal year 1937 out of funds appropriated under the provisions of Section 601 of the Social Security Act, see the *Annual Report of the Secretary of the Treasury for Fiscal Year Ended June 30, 1937*, p 204

[9]Data from the *Annual Report of the Secretary of the Treasury for Fiscal Year Ended June 30, 1937.*

STATE DISTRIBUTION OF FEDERAL ALLOTMENTS FOR HEALTH (1937)

	No. of States	Amount	Per cent
Local Health Service	46	$3,603,478 35	41.06
Training of public health workers	51*	1,395,208.83	15.90
Venereal disease control	34	868,969 10	7 83
Promotion and supervision of local health service	35	529,277 14	6 03
Other central administrative services	45	384,830 39	4 38
Sanitary engineering	42	367,019 95	4 18
Prevention of communicable diseases	32	356,616 03	4 06
Laboratory services	34	328,155 59	3 74
Industrial hygiene	19	286,071 40	3 26
Tuberculosis control	17	211,260.02	2 41
Vital statistics	24	111,400 30	1 27
Public health nursing	16	100,236 43	1 14
All other purposes	—	416,347 22	4 74
Total		$8,958,870.75	100 00

* Including the District of Columbia, Alaska and Hawaii.

the part of the public is reflected in the widespread approval and support of the venereal disease control program by official and unofficial agencies and by lay groups throughout the nation. It is to be expected that the federal government will increase the expenditures for public health in the future

The Social Security Act (approved August 14, 1935, and amended August 10, 1939) should be regarded, in part at least, as a health measure. This act was primarily enacted to establish a system of federal old-age benefits, and to provide grants-in-aid to the several states to enable them to make more adequate provision for aged and blind persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws. The amounts appropriated to June 30, 1937, under the various provisions of the Social Security Act are shown in the following table [10]

[10] Ibid, p. 74

U. S GOVERNMENT APPROPRIATIONS UNDER SOCIAL SECURITY ACT
(1936-37)

Appropriations	Appropriated to June 30, 1936	Appropriated during Fiscal Year 1937	Total Appropriations to June 30, 1937
I For grants to states			
A Under Social Security Board			
1 For old-age assistance	$109,660,000	$150,000,000	$259,660,000
2 For unemployment compensation administration	31,250,000	19,000,000	50,250,000
3 For aid to dependent children	40,000,000	54,600,000	94,600,000
4 For aid to the blind	10,000 000	10,000,000	20,000,000
Total	190,910,000	233,600,000	424,510,000
B Under Department of Labor			
1	4,400,000	3,700,000	8 100,000
2	3,337,000	2,800,000	6,137 000
3	1,825,000	1,475,000	3,300,000
Total	9,562 000	7 975,000	17,537,000
C Under Treasury Department			
1 For public health work	11,333,000	8 000 000	19,333,000
D Under Interior Department			
1 For vocational rehabilitation of persons disabled in industry	2,261,000		2,261,000
Total grants to states	214,066 000	249 575,000	463,641,000
II Appropriations for other purposes			
A Under Treasury Department			
1 For disease and sanitation investigation by Public Health Service	1,695,000	1,600,000	3,295,000
2 For old-age reserve account	265 000 000	500,000,000	765,000,000
Total for other purposes	266,695 000	501,600,000	768,295,000
GRAND TOTAL	$480,761,000	$751,175,000	$1 231,936,000

Expenditures for National Defense. Except for the first few years of our national existence, the annual expenditures for the War and Navy Departments have shown a tendency to increase substantially The following table presents certain data on expenditures for the Army and Navy from 1899 to 1939, and the percentages of their totals to the gross federal outlay for all ordinary governmental purposes [11]

The analysis of this table, at least in part, may best be shown by the graph on page 60 [12] The graph does not tell a complete

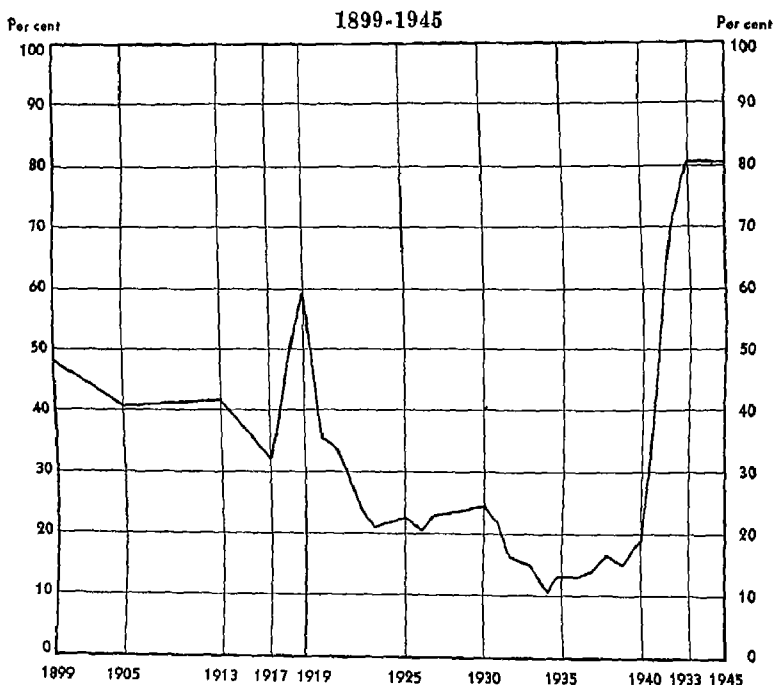
[11] These data, except for 1937, 1938, and 1939, were appropriated from the *Annual Report of the Secretary of the Treasury . for the Fiscal Year Ended June 30, 1936*, p 362 The data for 1937, 1938, and 1939 were taken from *The Budget of the U S Government for the Fiscal Year Ended 1939*, p xxi

[12] The percentages of expenditures for Army and Navy to the total ordinary outlay for all purposes of the federal government were practically constant from 1899 to 1917, hence this part of the curve was made on a five-year basis during this period for comparison The curve since 1917 was plotted on an annual basis because it is this period that is under consideration in this study.

FEDERAL EXPENDITURES FOR ARMY AND NAVY (1899-1945)

Year	War Department	Navy Department	Total Expenditures for Ordinary Government Purposes	Per cent of Total for War and Navy Departments
	(thousands of dollars)			
1899	$ 229,811	$ 63,942	$ 605,072	48.6
1904	165,200	102,956	583,660	45.0
1909	192,487	115,546	693,744	44.1
1913	202,129	133,262	724,512	46.3
1914	208,350	139,683	735,081	47.4
1915	202,160	141,836	760,587	45.2
1916	183,176	153,851	734,056	45.9
1917	377,941	239,033	1,977,082	31.2
1918	4,869,955	1,278,840	12,696,702	48.4
1919	9,009,076	2,002,311	18,514,880	59.5
1920	1,621,953	736,021	6,403,343	36.9
1921	1,118,076	650,374	5,115,928	34.6
1922	457,756	476,775	3,372,608	27.7
1923	397,051	333,201	3,294,628	22.1
1924	357,017	332,249	3,048,678	22.6
1925	370,981	346,142	3,063,105	23.4
1926	364,090	312,743	3,097,612	21.9
1927	369,114	318,909	2,974,030	23.1
1928	400,990	331,335	3,103,265	23.6
1929	425,947	364,562	3,298,859	23.9
1930	464,854	374,166	3,440,269	24.4
1931	478,419	354,071	3,651,516	22.8
1932	477,450	357,618	4,741,015	17.6
1933	449,395	349,562	4,681,349	17.1
1934	408,895	297,029	6,745,186	10.5
1935	489,155	436,448	6,802,267	13.6
1936	618,919	529,032	8,476,558	13.5
1937	628,104	556,674	8,177,409	14.4
1938	644,264	596,130	7,238,822	17.1
1939	695,256	672,722	8,707,092	15.7
1940	907,160	891,485	8,998,190	19.9
1941	3,983,943	2,313,058	12,710,630	49.5
1942	14,325,508	8,579,589	32,396,585	70.7
1943	42,525,563	20,888,349	78,178,885	81.1
1944	49,438,330	26,537,634	93,743,515	81.0
1945	50,490,102	30,047,152	100,404,595	80.2

story, however. The first impression from its conformation may be that after 1919 the United States actually spent less for national defense, when in fact, omitting a consideration of the war years of 1918 and 1919, the total number of dollars going for this purpose has tended to increase. The graph shows the various percentages of the total expenditure for ordinary governmental purposes that have been absorbed since 1899 for national defense.

After the war with Spain in 1898, the United States Government became a world military power and, of course, spent considerable sums of money each year to improve the Army and Navy, which accounts for the high percentage of outlay at that time. During World War I, the immediate expenditures for national defense absorbed on the average 50 per cent of the total annual outlays for ordinary governmental purposes. Immediately following the first World War these percentages fell, not because the

total outlays decreased, but because of certain credits to this fund mainly due on account of deductions from basic compensation of employees and service-credit payments, interest on investments, and provisions for a Retirement and Disability Fund.[13]

Trust Fund Accounts. The federal government has under its jurisdiction many trust fund accounts, such as those for foreign service, Canal Zone, Alaska railroad, District of Columbia teachers' retirement, to mention only a few. Many of these trust funds were created by special appropriations of Congress; some by bequests of individuals; others by the beneficiaries themselves. Little would be gained by even a brief presentation of each; however, the unemployment trust fund is of sufficient importance to warrant its brief consideration.

[13]See the *Annual Report of the Secretary of the Treasury . . for Fiscal Year Ended June 30, 1937*, p 86, for a complete statement showing the status of the Retirement and Disability Fund

The unemployment trust fund was established under Section 904(a) of the Social Security Act The Secretary of the Treasury is authorized to receive these funds and to invest such portions as, in his judgment, will not be required to meet current needs. These investments may be made only in interest-bearing obligations of the United States or in securities guaranteed both as to principal and interest by the federal government. The Social Security Act of 1935 provided three methods for making these investments: (1) purchase of original issues at par, (2) purchase of outstanding obligations at the market price, and (3) issuance at par of special public debt obligations exclusively to the fund

The Social Security Act provided that the fund shall be invested as a single account, and that the Secretary of the Treasury shall keep separate all moneys due each state agency. The total credits to the fund during the fiscal year of 1937 amounted to $295,653,140 08, of which $292,915,958.16 was received from state agencies and $2,737,181 92 represented interest on investments. During the fiscal year of 1937, payments were made to state agencies on their requisition to the amount of $1,000,000 During this same year, investments were made in Treasury Certificates in the total amount of $596,389,000.[14]

State and Local Expenditures. The expenditures of state and local governments will be considered and analyzed under two main headings: (1) Governmental-Cost Payments, and (2) Public Indebtedness The governmental-cost payments of state governments and of the political subdivisions include the outlays for executive, legislative, and judiciary departments; protection to person and property, health and sanitation; highways; charities, hospitals, and correction; schools; libraries; recreation; public-service enterprises; and interest charges They also cover such other costs as for services employed, properties constructed, purchased, or rented, public improvements, materials utilized, and interest on borrowed money. The costs that pertain to public indebtedness include general bonds; special assessment loans, temporary loans; warrants, orders, and audits, and other debt obligations.

Analysis of Aggregate Expenditures It is extremely difficult to obtain reliable comparative data on state expenditures prior to

[14]Ibid , p 94.

1902. The table on this page shows these aggregate expenditures[15] for various years since that date.

TOTAL AND PER CAPITA STATE EXPENDITURES, 1902-46
Not including capital outlay
(Totals in thousands of dollars; per capita expenditures in dollars

Type of Expenditure	1902		1915		1928		1938		1946	
	Total	Per Cap	Total	Per Cap	Total	Per Cap	Total	Per Cap	Total	Per Cap
General Government	$ 25,897	0 32	$ 41,508	0 45	$ 97,653	0 82	$154,008	1 20	$ 190,363	1 52
Protection to Persons & Property	6 804	0.08	26,203	0 27	70,138	0 60	123,112	0 96	141,494	1 10
Development & Conservation of National Resources	3,240	0 01	16,558	0 17	66,111	0 55	89,099	0 70	166,995	1 27
Health & Sanitation	5 327	0 07	9,463	0 10	29,475	0 24	45,071	0 35	104,052	0 79
Highways	4,690	0 06	22,707	0 23	201,481	1 72	466,105	3 62	701,023	5 29
Charities, Hospitals, Correction	52,515	0 65	89,189	0 91	201,831	1 70	1,059,730	8 23	1,480,314	11 19
Education										
Schools	16,030	0 20	115,832	1 48	480,619	4 05	889,484	6 91	1,289,648	9 85
Libraries	....	......	1,331	0 01	2,199	0 02	2,492	0 02	3,408	0 03
Recreation	1,563	0 02	875	0 01	4,002	0 03	8,279	0 06	10,963	0 08
Miscellaneous	9,469	0 12	22,214	0 22	51,741	0 44	341,537	2 66	569,676	4 35
TOTAL*	$ 125,552	1 55	$ 379,030	3 85	$1,208,280	10 18	$3,182,159	21 66	$4,002,431	35 49

*TOTALS, in some cases, include a few other items which are unimportant for purposes of the present discussion

In the analysis of these data of expenditures, several matters should be kept in mind In the first place, expenditures of states and municipalities carry an entirely different meaning in the United States than in most other countries because of the degree of autonomy possessed by each of these local units Also, the classification that has been adopted has not always been uniform, making it difficult at times to draw comparisons. These classifications have usually been made along functional lines, which may vary somewhat among the various spending units These conditions tend to exaggerate the total outlay

Turning to the table above, which shows the total and per capita state expenditures, it should be noted that the total outlay between 1902 and 1946 has increased about 2,000 per cent. Every item in the classification shows a steady but substantial increase. During this thirty-year period, expenditures for general govern-

[15]These data were taken from
Census Bureau Report on Wealth, Debt and Taxation, 1902
The Financial Statistics of States, U S Department of Commerce, Bureau of the Census (Washington, D. C.: U S Government Printing Office)

ment, although substantial, showed the least increase, being a little less than 700 per cent On the other hand, during the same period, outlays for highways and education rose about 8,000 per cent. During this thirty-year period, the combined expenditures of all states for protections to persons and property increased 2,300 per cent, for development and conservation of natural resources, more than 5,400 per cent; for health and sanitation, over 1900 per cent, and for charities, hospitals, and correction, over 2,700 per cent The per capita expenditures also rose; this fact shows that state outlays increased much faster than population.

State Indebtedness. The table on this page sets forth the changes in the debt obligations of states between 1915 and 1931 [16] The total amount of state indebtedness in 1931 represents almost a 500 per cent increase over that of 1915 During this same period of sixteen years, the debt that had been incurred for general government properties shows an increase of only about 180 per cent, while for highways, it is 700 per cent; for charities, hospitals, and correction, 500 per cent; for universities, 2,300 per cent; and for public service institutions of all kinds, the increase is over 1,000 per cent.

FUNDED, FLOATING, AND SPECIAL ASSESSMENT DEBT OF STATES

(1915-31)

Purpose	*1915*	*1923*	*1924*	*1928*	*1931*
General Government Properties	$ 15 710,000	$ 12,723,523	$ 13,105,825	$ 29,750,305	$ 12 662,657
Armories	5,118,000	1,805,300	1,182,500	1,217,100	1,001,777
Agriculture	170,650	2,190,740	2,013,710	25,181,322	1 122,760
Tuberculosis	875,500	2,016,700	1,579,500	1 508 110	818 112
Highways	200 980 312	611,210,172	701,106,815	1,088 036 770	1 125,015 876
Charities, Hospitals, & Correction	16 050,211	18,945,382	22,461,218	31,861 078	81 808 082
Universities	1 811,397	6,339 105	9,122,013	12 227 950	21 118 938
Agri Colleges	316,500	1,851,530	3 021 600	2,171,500	1 615 02[illegible]
Parks and Reservations	6,731,137	16,587,762	16,321 256	31 580 500	28 111 115
Aids to Soldiers	136,500	153 331,100	281 127 600	251,081 000	225 198 260
War Loans	1,240,700	8,233,788	7,187 788	5 762 188	6 617 100
Public Services	28,537,050	92,757,500	110,318,722	290 505 702	291 869 712
Total*	$ 512,102,116	$1,210 166 117	$1,191,109,881	$2 061 107 190	$[illegible]

*These totals represent the actual expenditures for the respective years and are not the sums of the various columns, because many unimportant items have been purposely omitted

[16] Source of data, ibid, for 1915, table 25, pp 120, 121, for 1923, table 21, pp 132, 134; for 1924, table 21, pp 130, 132, for 1928, table 19, pp 114, 116, for 1931, table 19, pp. 110, 112

In general, it may be said that this indebtedness represents the increasing deficit of the states, which could not be met by a rapid increase in taxation It can readily be seen that this money was largely spent for social purposes — such as highway construction; better educational, charity, hospital, and correctional institutions; water and transportation facilities — and not for the ordinary purposes of government. These two tables on state expenditures and state debts exhibit, first, the constant and steady increase in both conditions, and, second, the importance that public borrowing now occupies in all forms of government finance. It is not too much to say that the modern state could not long continue if its credit facilities were suddenly impaired.

Analysis of City Expenditures. The table given below shows at a glance the great outlay made by cities of 25,000 and over.[17] Between 1904 and 1945, their total expenditures increased about 550 per cent, and the per capita outlay rose from $13.77 in 1904 to $36 68 in 1942. Again, the expenditures for general government do not show as great an increase — about 480 per cent — as do those for some of the other services

TOTAL AND PER CAPITA CITY EXPENDITURES, 1904-45
Not including capital outlay
(Totals in thousands of dollars; per capita expenditures in dollars)

Type of Expenditure	1904		1919		1931		1942		1945	
	Total	Per Cap	Total	Per Cap	Total	Per Cap	Total	Per Cap	Total	Per Cap.
General Government	$ 29,070	1 35	$ 76,977	2 22	$ 183,170	3 79	$ 158,287	3 03	$ 170,755	
Protection to Persons & Property	78,444	3 64	158,050	4 55	421,054	8 72	453,837	8 70	485,230	
Health, Conservation & Sanitation	28,231	1 31	81,498	2 35	202,500	4 19	172,126	3 30	315,812	
Highways	36,513	1 69	72,485	2 09	181,312	3 75	27,281	2 58	154,395	
Charities, Hospitals & Correction	19,116	0 89	55,086	1 59	201,955	4 18	387,231	7 41	366,474	
Education										
Schools	86,842	4 03	238,906	6 89	809,913	16 78	461,082	8 83	546,763	
Libraries	4,196	0 19	9,842	0 28	29,661	0 61	26,993	0 52	32,211	
Recreation	8,478	0 39	25,971	0 75	78,892	1 63	70,288	1 35	82,667	
Miscellaneous	5,030	0 23	11,804	0 34	121,027	2 51	49,640	0 95	58,246	
TOTAL*	$ 296,924	13 77	$ 753,878	21 75	$2,229,491	46 18	$1,914,213	36 08	$1,966,458	

*TOTALS include other items which are unimportant for purposes of the present discussion

[17]Data taken from *The Financial Statistics of Cities*, U.S. Department of Commerce, Bureau of the Census (Washington, D.C · Government Printing Office). Through 1931, the population base was 30,000 and over; the base for 1942 and 1945 was 25,000 and over

The expenditures during this same period for protection to persons and property increased over 500 per cent, for health, conservation, and sanitation, over 1,000 per cent; for highways, about 300 per cent; for charities, hospitals, and correction, slightly over 1,800 per cent; for education, about 760 per cent; and for recreation, about 900 per cent. These expenditure increases greatly exceeded the change in population, and in many instances they perhaps rose faster than the accumulation of wealth of the cities Again it is to be noted that the great increases were in the expenditures for distinctly social services, such as education, charities, hospitalization, correction, and health. The capital equipment for these latter purposes has been accumulating with great rapidity during the past few years, which accounts to a very large extent for these expenditure increases.

The data on the funded, floating, and special assessment debt of cities of 30,000 and over convey a vivid picture of problems that are peculiar to local government.[18] While the debt accumulation for general government properties is substantial, yet it does not show as great an increase as many other services In the public service enterprise, the debt for electric light and power increased over 1,000 per cent during the period from 1902 to 1931, and for water supply it rose about 335 per cent.

Cities have recently been expanding their park and playground facilities and, during the period from 1902 to 1931, the total debt accumulation for these purposes rose almost 350 per cent. During the same period, this group of cities increased their indebtedness over 760 per cent for sewers and sewage disposal plants; for highways, 588 per cent, and for schools, over 1,200 per cent Of the total indebtedness of cities of this class for all purposes during the period between 1902 and 1931, there is an absolute increase of about 472 per cent Again the chief cause of these increases of city indebtedness is to supply greater social needs to the community, thereby improving the general welfare and living standards of the people

Summary. In this and the preceding chapter, an attempt has been made to set forth an explanation of the fact that public expenditures have tended to increase during the past several cen-

[18] *Ibid*, for 1902, table 83, p 446, for 1915, table 29, p 302, for 1919, table 27, p 302, for 1925, table 21, pp 422, 430, for 1929, table 21, pp 434, 442, for 1931, table 19, pp 430, 440

turies. This is not only true of all types and levels of governments, but it also exists among those that have not engaged in wars or maintained large armies and navies War seems, however, to be the principal cause of the increase of public expenditures in the past, although at present the outlays for social purposes seem to be holding a close second. The actual costs for the original functions of government, such as the legislative, executive, and judiciary, are insignificant as compared with the amount spent for the protective and social services At present, all types of governments have greatly expanded the number of functions they perform and this accounts, at least in part, for the increases in public expenditures.

TEXT QUESTIONS

1. Before the federal government stepped in, who supplied relief for the needy?
2. What was the purpose of the item General Public Works in the Federal budgets of 1930 and 1931?
3. What are the two outstanding facts brought out by the table on Recovery and Relief and Public Works Program?
4. What was the purpose of the amendments in 1933 and 1935 to the Federal Farm Loan Act of 1916?
5. What were the aims of the Federal Emergency Administration of Public Works?
6. In what way did the federal government give aid to home-owners?
7. In what two ways has the federal government used public works?
8. What are some of the results of the TVA?
9. What types of schools received the greatest allocations by the NYA in 1936-37?
10. Which federal agency provides for public health expenditures?
11. What are some of the public health functions performed by the federal government?
12. How did the Social Security Act affect the Public Health Service?
13. Why did the percentage of federal expenditures for the Army and Navy fall after World War I?
14. What types of investments may be made with the unemployment trust fund?
15. Which costs of State and local governments pertain to public indebtedness?

16 What conditions tend to exaggerate the total outlay of state and local governments?

17 Between 1902 and 1946 which state and local expenditure showed the least increase, which the most?

18. What do the two tables on state expenditures and state debts exhibit?

19. What is the chief cause of the increase of city indebtedness?

APPLICATION PROBLEMS

1. Can you show how and to what extent federal aids to agriculture depend upon the total income to the farmer; upon general price level; upon prices of agricultural products?
2. What can be said for and against federal aid to education at the present time? Why are such proposals so vigorously opposed by certain groups? Is it reasonable to contend that education is purely a local matter for the states and local units to finance?

RESEARCH TOPICS

1 Organize a report to be made before the class on the parity program which the federal government has used in giving aid to agriculture How is this aid distributed, and how are the funds raised? Have there been any constitutional questions raised in regard to this type of aid?

2 Consult the last three federal budgets and analyze the federal expenditures for relief, health and educational purposes. Do these expenditures correlate in any way with the cyclical changes in industry as indicated by the BLS Wholesale Index Number of general prices?

3 Consult the latest report of the Secretary of the Treasury and present to the class an analysis of several trust accounts which the federal government keeps. How are the federal trust accounts accumulated, and how are the funds invested and otherwise kept?

4. What is the health program of your state and local governments? What are the expenditures for these purposes? How were the funds raised? To what extent, if any, has the federal government aided in these expenditures?

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CHAPTER 4

PUBLIC EXPENDITURES: THEIR PRINCIPLES AND THEORY

A study of public expenditures must necessarily start with the theory of the state and of its needs. As soon as the state came into existence, providing for its functions became a matter of great importance; hence, the political organization of a community and the fiscal provisions for its functions and activities seem to have developed at about the same time It was early perceived that certain social and political and economic wants could best be supplied collectively It was upon this basis that the individual members of the community could be induced to contribute to common purposes. The individual therefore ceased to provide his own means of protecting his life and property, his own school and road systems and, in some cases, his own places of worship, instead, he joined with others in a common effort to supply these general needs collectively. It is upon this basis that taxation and public expenditures may be explained and justified.

As social and economic conditions became more complex, the group extended its common activities by providing eleemosynary and penal institutions, by organizing public utility corporations, by extending the arm of government to make common cause against monopolies and trusts, the evils of unemployment, social insecurity and maladjustments, and even to aid in effecting a more equitable distribution of wealth through the processes of taxation and government spending As time passed, the interests of individuals of a community tended to become more complex and interdependent, both politically, economically, and socially, which caused great increase in the burdens of government. The minimum services of government have, therefore, been an ever-changing and increasing concept as new social and economic institutions developed.

General Theory of Public Expenditures. A theory of public expenditures cannot be separated from the fundamental social and political views, and aims and ideals of the community As was stated in a previous chapter, if the general public attitude is individualistic, the services and costs of government will tend to be

held to a minimum. The people, under such social organization, will prefer to supply their own individual needs instead of relying on outside agencies. If, on the other hand, the people of the community are socialistic in their attitude, they will be continually extending their government into new and more intensive fields of social service. They will prefer to supply many of their needs collectively. Under such circumstances, public expenditures and taxation may and usually do rise to a very high level, perhaps consuming a very considerable percentage of the national income. This has been true of the social concept and development of government in the past

The early king or tribal chieftain, by virtue of his regal position, was the owner of everything within his domain. The early kings of England owned not only the land in fee simple, but the people themselves and all their possessions. At that time, the right of private property did not exist for the benefit of the governed. Any expenditure the ruler wished to make was not to be questioned by the people; it was their duty to supply the revenue, and his right to do the spending without public accounting. He was therefore justified, under such theory of ownership, in seizing any property from his subjects he might want for his own benefit. A theory of taxation and of equity of the burden could not develop under such system

But great and fundamental economic changes were in the making. The appearance of the institution of private property, through the protecting arm of the state, together with quantity production by means of capital, brought great wealth The development of markets and of systems of money and of credit facilitated the exchange of goods and services It was finally recognized that private ownership and possession of the instruments of production and of the products of industry, under some form of capitalistic system operated in a competitive market subject to state regulation, furnished the most efficient means of wealth creation. Under such an economy, the people were able to contribute more extensively to the support of their government.

With the appearance of the institution of private property came great political changes. The mantle of government slowly and finally came to rest upon the shoulders of the people. A new concept of public spending and taxation developed. The services of government had settled in an intermediate position between the

extremes of socialism and individualism. Under this new social and economic condition, public expenditures were then made for the benefit of the entire body of the people, not just for the support of the few. The institution of public credit appeared as a handmaiden to supplement the income of the state. A system of taxation and public borrowing, in the modern sense of the term as distinguished from the old method of exactions, developed. Constitutionalism introduced the policy of government by laws and not by men. In theory, if not in fact, the opportunity for wealth acquisition became open to all.

The modern state constitution has grown even more inclusive and extensive in its functions. The Weimar Constitution of republican Germany in 1919, after World War I, provided for land rentals and the development of trade and natural resources—many of which functions were later extended and continued under the Hitlerian totalitarianism. The Fascist Corporative State founded in 1922 incorporated every important industry of Italy and drafted a very extensive code for the regulation of labor The Soviet Constitution of 1936 provided for a socialist state for the complete ownership and control of production, a condition which was later greatly modified. The Chinese Constitution, which went into effect on December 25, 1947, included provisions in regard to land ownership, development of natural resources, government control of production and limitation of monopoly. Thus, thrusting the institution of the modern state into the forefront has enormously expanded the state's function and expenditures and the burdens upon every source of income.

Other social developments have greatly added to the burden of government and to its expenditures. The fact that wealth is unequally distributed has raised the problem of social justice, and all sorts of new political ideals and nostrums have been proposed to correct this evil It has been suggested that social justice can be had only through some form of collectivistic or communistic society in which the government owns all the means and products of production, makes all expenditures, provides for all the wants of the consumer, and otherwise regulates all the activities of the individual. Under such a political organization, it is contended that if the state did not take all the net income from production directly, it would at least finally come into possession of it by means of taxation. The workers would then be paid either in con-

sumers' products or wages, depending upon the type of political organization adopted

Maldistribution of wealth is largely responsible for certain socialistic tendencies of the modern state, and has tended to pave the way for many of the totalitarian and corporative states and political dictatorships Under such socialistic systems, government is expected to supply all services and needs of the people In the last few years, governments of the world have entered upon such broad fields of industrial and social control that practically every sort of human endeavor now comes under the general class, "affected with public interest." The trend and kind of public expenditures and forms of revenue have thereby undergone great changes because of these political and social developments.

Capacity to Spend. The ability of the individual and of the private corporation to spend is limited by their current income and their capacity to borrow. At least in the end, the total expenditures must be brought within the total income, or bankruptcy results. But government does not operate under a similar financial policy In general, the government needs a certain amount of money or purchasing power to supply its needs, and it proceeds to formulate taxation and borrowing programs to produce this income. In other words, the modern government spends today and then arranges a program of income later to meet its fiscal needs. As will be discussed subsequently, a budget is a predetermined list of expenditures, based upon the immediate declared needs of the state, upon which a tax and borrowing program is formulated to supply the necessary income Governments, too, must operate sooner or later under balanced budgets by equating expenditures and income, but they can hardly be said to face bankruptcy, rather, the way out of such fiscal dilemma for a government is inflation by the issue of irredeemable legal tender paper money

A government cannot, of course, spend without limit, but, because of its sovereign power, it is in a position to draw upon all the resources of the people, both actual and potential, present and future. Nor is it possible or advisable for a government always to pay as it goes, out of funds derived from taxation, even though the current national income is sufficient to permit such pay-as-you-go fiscal policy. The policy adopted ultimately by the federal government during World War II was to raise about half of its income by taxation and the balance by borrowing That policy

was finally adopted mainly for two reasons: first, to soak up part of the spending power in the hands of the consumer thus effecting some control over further inflation; and, second, to release as much capital for production purposes as possible.

Many tax economists have attempted to determine in advance the theoretical and actual ability of a government to spend, based, of course, principally upon the taxable and lending capacity of the people But many of their contentions are either downright fallacious or only partly true.

In the first place, the capacity of a government to spend or to borrow cannot be fixed at a certain mathematical ratio to wealth accumulation, or net national income, or on a per capita basis of its citizens Neither can the spending capacity of one nation be determined by making comparisons with the economic conditions of another Many people in the United States contended before 1940 that a second World War was not possible because the nations of Europe "did not have the money," or that they were already "bankrupt." But both of these contentions are obviously erroneous because modern war is not financed by *money*, as most people think of the term, but by *created* purchasing power or credit dollars For example, the federal government was spending over $8,000,000,000 a month in the 1944-45 fiscal year largely for war purposes This sum was not gold, or silver, or paper money, but *credit dollars*. To make the point clear, suppose, for example, that the federal government, or a state, or a local unit were to tax or to borrow a thousand dollars from an individual or private corporation. In nearly every instance, this amount would be paid by drawing a check on a demand deposit in a bank. The transaction would then be cleared by the bank's debiting the account of the drawer and crediting that of the government The government in turn would pay its bills by check and again the entire transaction would be cleared by a debiting-crediting procedure on the books of the bank or banks. At any rate, no funds whatever may change hands.

Any government can, therefore, carry on a war as long as it is able to get men and materiel, which it may acquire either by hire and purchase out of funds raised by a tax and borrowing program, or out of the issue of irredeemable legal tender paper currency, or by confiscation without compensation. It is hardly conceivable that the Nazi or the Fascist or the Soviet leaders quibbled about

the purchase price of any materiel that they needed to prosecute the war.

An English tax economist contended that the taxable capacity of a people depended upon the "limit of squeezability," or "plucking the most feathers with a minimum amount of squawking." In the long run, the government's capacity to spend may be limited by the extent to which the people may be induced to share their income. This may vary among nations as well as individuals. In a time of great emergency, people may be induced to submit to kinds and amounts of taxation that they might refuse to pay under other circumstances. In any policy of public expenditure, however, the government should keep in mind its effect on future production and consumption, because to impair these two processes would greatly endanger the whole economy.

The capacity of a government to tax or to borrow may depend upon the extent of the concentration of wealth within its territory. It seems that the greater the degree of wealth concentration in the hands of a few individuals and corporations the greater is the tax paying ability But this is hardly a valid argument for wealth concentration.

The early state resorted to indirect taxes as much as possible, but today, since the funds are used for the general benefit and not just for the pleasure of the king, the people do not object to the direct levy. This change in fiscal policy has greatly increased the total public income and also the amount of government expenditure.

Cost Basis of Government Operation. The tendency of total governmental costs, as has been shown, is to increase both relatively among the various functions, and absolutely over long periods of time. But how does this absolute increase of governmental cost vary when considered on a unit of population basis?

The data at the top of page 75 give the total and per capita governmental expenditures of cities in the United States for 1945.[1]

There is also an increase in the per capita cost of all activities as the city becomes larger. This same trend seems to be true of

[1]Data derived from Table I in City Finances, 1945, U S. Department of Commerce, Bureau of the Census, Government Printing Office, Washington, D C. (1947) p. 5. Also see Hansen & Perloff, State and Local Finance in the National Economy, Norton & Co., (1944), p 72, who came to the same general conclusion, but they do not give their data upon which they base their statement.

EXPENDITURES OF CITIES

Population Classification	Total Expenditures	Average* Per Capita Expenditures
Group VI, 25,000 to 50,000	$ 247,411,000	$33 61
Group V, 50,000 to 100,000	272,084,000	34 82
Group IV, 100,000 to 250,000	330,211,000	34 92
Group III, 250,000 to 500,000	362,692,000	49 61
Group II, 500,000 to 1,000,000	410,695,000	60.10
Group I, over 1,000,000	1,059,106,000	73 81
Total	$2,682,199,000	

*All figures in above table are rounded to nearest million The per capita was computed according to the average estimated population for cities in a particular group for the year.

all types and levels of government While there are many exceptions, the data seem to warrant the general conclusion that government operates under the law of increasing cost. The explanation of this trend of per capita cost is that the larger the unit of government the more complex it becomes. For example, a city of 500,000 inhabitants, not only performs more functions than the smaller unit, but it also does them more intensively, and, perhaps, more efficiently, but the increased efficiency is not enough to offset the increase in the unit per capita cost. The problems of health, sanitation, policing, and fire hazards, seem to become greater as the density of population and the size of the area

EXPENDITURES OF STATES

Year	Total Expenditures[2]	Per capita* (in dollars)
1940	$3,514,189,000	$26 16
1941	5,541,599,000	40 75
1942	5,863,887,000	42 65
1943	5,926,143,000	42 98
1944	5,974,945,000	42 15
1945	6,044,000,000	45 81
1946	6,445,000,000	49 19

*Per capita expenditures were computed on basis of absolute amounts rounded to nearest thousand, and on the average population estimates for the year.

[2]These data were obtained from the *State Finances* for the various years, U. S. Department of Commerce, Bureau of Statistics, Government Printing Office, Washington, D. C

covered increase. The same seems to be true for all capital expenditures for roads, buildings, schools and hospitals.

The tendency for governmental costs to increase seems to maintain for the states The preceding table gives the total expenditures for all the states during the years 1940 to 1946, and the per capita expenditures

The following table gives the expenditures for all the states during the period of 1942 to 1946, by major functions. Every function shows a substantial increase, except highways and inter-

GENERAL EXPENDITURE, BY CHARACTER AND MAJOR FUNCTION. 1942-1946

CHARACTER AND MAJOR FUNCTION	AMOUNT IN MILLIONS					Per* Capita 1946
	1946	1945	1944	1943	1942	
Total general expenditure	$6,445	$6,044	$5,974	$5,926	$5,863	$49 19
Provision for debt retirement	188	228	220	372	305	1 43
General expenditure less provision for debt retirement	6,258	5,822	5,754	5,558	5,558	47 75
Operation	2,577	2,254	2,102	1,968	1,916	19 66
General control	199	187	171	170	169	1 52
Public safety	144	131	131	134	128	1 10
Highways	357	308	264	244	260	2 73
Natural resources	166	144	132	121	123	1 27
Health	104	95	69	57	54	79
Hospitals and institutions for the handicapped	322	287	267	248	233	2 45
Public welfare	679	605	578	556	526	5 18
Correction	91	82	78	74	71	69
Schools	374	354	354	305	275	2 86
Libraries	3	3	3	2	3	03
Recreation	11	9	8	8	8	08
Miscellaneous	126	48	49	54	70	96
Capital outlay	357	267	325	477	615	2 73
Highways	267	223	282	416	527	2 04
Schools	33	33	14	15	19	26
Other	57	30	28	42	62	44
Aid paid to local governments	2,086	1,884	1,850	1,778	1,791	15 92
Highways	347	302	308	332	359	2 65
Public welfare	379	349	366	360	389	2 89
Schools	915	846	889	801	770	6 99
Other	444	387	386	286	273	3 39
Interest	70	80	87	99	110	53
Contributions to trust funds and enterprises	1,168	1,336	1,389	1,231	1,126	8 91

*Based upon estimated population on July 1, 1945, excluding armed forces overseas Per capitas are computed on the basis of absolute amounts rounded to the nearest thousand

[3]State Finances, 1946, U. S Department of Commerce, Bureau of Census, Government Printing Office, Washington, D C (1947), p 6

est charges. During this period, highway construction was practically discontinued because of the lack of materials, and interest charges were reduced because the states took advantage of the period of prosperity to pay their indebtedness Increases in the revenue due to improved economic conditions also made it possible for the states to reduce their borrowings.

Nature of State Economy. Public and private economy may be further distinguished, and yet, in many respects, they are very much alike Both must operate on sound business principles, or become wasteful and inefficient In the first place, public economy is compulsory in character The legal principle that the power to tax is the power to destroy as stated by Marshall in McCulloch v Maryland,[4] merely means that the state, in its sovereign right, may go to any length in taking the property and income of its people for public purposes by processes of taxation The fact that a tax upon an individual or corporation is falling with such weight as to drive him or it out of business is no defense against paying it But there is a vast difference when the state considers the possible effects of a tax and expenditure program on the people *en masse* and on any one individual. The expenditures of the state and the objects to which they are directed are determined by the productiveness of private industry, and the facility with which this wealth may be secured through taxation and public borrowing

The power of a state to levy a tax upon its people is therefore an act of sovereignty, and its real limiting factor is economic expediency, not political authority. As has been stated, there are numerous instances in which the people of a community can supply certain of their needs better collectively than individually A school system, for example, which is maintained out of public funds, can be made vastly better and more efficient than if each individual of the community attempted to provide his children with educational facilities The state is therefore justified in levying taxes upon its people only when the money taken from their pockets can be used better collectively for the common good than if it is left in their hands to be spent individually The distinction between spending individually and collectively is obvious, and this principle is sometimes known as the doctrine of maximum social advantage. It is about the only basis upon which a just and equitable system of taxation can be justified

[4] 4 Wheaton 316 (1819).

The very nature of public economy requires that the state seek the general welfare of its people only. The money collected through taxation and public borrowings must be spent for public purposes only, and any other use to which it is put may be successfully enjoined by a proper court action. The term "public purpose" has been expanded by the courts during the past few years to include many new objects of expenditure. What is or is not an expenditure for public purpose is a judicial and not a legislative question. The ends sought by public expenditure are largely of an immaterial nature, such as protection to life and property, promotion of progress, education, health and economic security, although, in recent years, the federal government, state, and local units have been making liberal direct contributions to the material welfare of those who are destitute by furnishing them with food, clothing, and shelter.

The scope and object of the work of the state are significant characteristics of public economy. The state will undertake those services that yield both immediate and remote benefits, whereas the individual is usually interested only in an early return from his efforts. For example, the state, being a corporate entity in perpetuity, will make heavy investments in reforestation and in land reclamation even though the return is general and is far in the future. The profit motive has no place in the activity of the state, although under the New Deal the federal government made many investments in private industry from which it may receive a return in the future On the other hand, the private concern aims at as large a profit as possible. If the individual barely makes all financial ends meet at the close of the fiscal year, he is not very prosperous. The greater the surplus in private business the more successful is the undertaking. On the contrary, the ideal of state economy is to establish and maintain as good balance between receipts and necessary expenditures as is possible, without regard to profit. A government is a service institution and must act without regard to profits and losses A government that has large running surpluses is as ill-managed as the one with large annual deficits. Since by no possible chance will state income and expenditures keep in constant balance, a policy of surplus-deficit financing is the one preferred. A balance is not expected to be struck annually. The present effort is to equate income and expenditures on a cyclical basis that may be over a period of several years rather than annually.

Since the state fixes its income according to its needs, the determination of the rate of taxation becomes important. If these two items of state economy are to be managed most efficiently, a highly developed system of budgeting public expenditures and income is indispensable. Acting as a sovereign body, the state first prepares a list of public needs and expenditures, taking into account economic expediency, and then fixes its income to meet these financial demands. State expenditures frequently vary quite widely, because of the occurrence of emergencies. Meeting these new and sudden financial requirements presents many complex problems If expenditure increases may be expected to continue for an indefinite period, they should not be met by state borrowing because continued borrowing may result in an accumulated deficit that involves the state in inflation

On the other hand, to advance the tax rate too rapidly or to raise or lower it too frequently, would certainly have a demoralizing effect upon general business conditions. There is no act of government that is more distressing to business than a vacillating policy of taxation. In general, a tax is part of the costs of production, and, until it becomes reasonably stable, the businessman is operating under a condition of uncertainty. He cannot determine the wholesale and consumer prices of his products, nor the rate of wages to his labor. It is not here contended that the tax rate should never be altered when changes in government expenditures occur, but it should be done with caution and never blindly or capriciously.

Effect of Great Movements of Human Progress. Human progress exerts a tremendous effect upon the volume of government expenditures In fact, as will be explained further toward the close of this chapter, it furnishes some of the most important causes of increase in public expenditures.

The Industrial Revolution, which began about the middle of the eighteenth century, imposed heavier burdens on government and thus greatly increased its necessary outlays Trade, commerce, and markets were greatly stimulated and had to be protected The increase in the use of machinery and of the application of power to production processes was responsible for the development of the factory system and its many problems. The machine, especially when operated by power, increased the hazards of life

and limb. It became necessary for the state to impose certain regulations in regard to safety devices and to create a department of factory inspection. Under the simple handicraft system, if the worker suffered an injury while on the job, in order to collect damages he had to show that it occurred because of the fault of his employer. But, with the use of power machinery, the danger to the worker of being partially or totally incapacitated from accident was greatly increased. If he were the breadwinner, the entire family oftentimes became destitute and a charge upon charity.

To meet such social problems, almost every state in the Union now has a Workmen's Compensation Commission of one kind or another. In case of accident, negligence is presumed on the part of the employer for not having provided safe working conditions, and the injured worker is awarded damages with a minimum of delay. The expense to the state of enforcing these workmen's compensation laws is not an inconsiderable sum, but when balanced off against the social costs that it largely displaces, the amount becomes insignificant.

Other important social problems that the Industrial Revolution introduced relate to factory sanitation and safety regulation and to questions pertaining to labor When hundreds of laborers were brought under one roof to work with tools and materials that they did not own, problems of health, hygiene, ventilation, and wages arose States began passing factory sanitation laws and safety appliance acts. Special commissions were created to visit industrial plants to see that these factory acts were observed.

One of the most important economic problems of today is the relation between capital and labor At present, both the federal and state governments have complex systems of labor laws They have developed extensive facilities for handling all kinds of disputes between employer and employee, notably for the determination of wages and hours and conditions of employment. The laboring classes also have demanded that they and their children be given educational advantages that will prepare them to meet more successfully the new social conditions. The federal, state, and local governments have been expending large sums of money on general educational facilities and trade schools that will train these people for a variety of vocations.

The development of the large city has created many problems

that demand the attention of the government. Urban transportation problems, both in regard to public utilities and the automobile traffic, have tested the ingenuity of the municipal experts. Every city is spending yearly large sums of money for street widening and improvement, and for parking facilities The congestion in the city has made it necessary to provide greater police and fire protection for persons and property Health hazard has been partly eliminated by rigid sanitary regulations at public expense.

Mention should be made of the effect of what may be called a "wave of humanitarianism" on public expenditures Until comparatively recently, the community was willing that the insane and feebleminded, the poor, aged, and physically disabled be provided with the necessities of life by the members of their families. In fact, it was generally regarded as the family's plain duty to provide for its own mentally defectives and dependents. At present, the idea prevails that such burdens should be assumed by the federal, state, or local government. Millions of dollars of public funds are being spent yearly on institutions to provide for these unfortunates In like manner, there has been added the state's responsibility of providing for minimum wages, old-age pensions, unemployment insurance, and general welfare aids.

Classification of Public Expenditures. The term classification, as it is used in connection with public expenditures, generally refers to the arrangement of government cost items in such way as to reveal their relative and total costs Such classification is important for several reasons

Aside from providing a mass of essential financial data of government operation, a classification of expenditures is useful in that it is conducive to clear and accurate thinking with respect to the fiscal affairs of the state. It also makes for a wiser and more efficient handling of state funds, and furnishes an easier method of discovering irregularities in public accounts

Without a proper classification of public expenditures, the introduction of a system of government budgeting is practically out of the question The federal government has adopted a uniform system of accounting among all its departments This system is being adopted rapidly by state and local units Out of this emphasis upon better government accounting is arising a more detailed and useful classification of public revenue and expenditures.

The amount of money that the state may spend is not unlimited. The problems of balancing the activities of the various departments of government, and the allocation of funds among them according to their needs, often present considerable difficulty. A good public accounting system, therefore, presumes a proper classification of expenditures The legislature could hardly be expected to proceed with an intelligent disbursement of public funds without this guide.

A classification of public expenditures is an orderly arrangement of the cost items of a government at some particular time The data should be made intelligible to the rank and file of the taxpayers and put into their hands for their information. They should arouse the public interest in state activities and expenditures. As a rule, government reports on expenditures and revenues generally fall far short of this ideal and are regarded by the citizen taxpayer as something that is useful only to the state official, although at present this condition is taking a definite turn for the better. The average citizen today is becoming more expenditure- and tax-conscious.

Proposed Methods of Classification. Many different methods of classification of public expenditures have been proposed In most cases, they have not been practical or satisfactory. The early writers attempted to devise a classification of public expenditures that would be permanent, but the ever-changing fiscal plans and activities of the state have made such an objective impossible. Early writers, like Carafa and Bodin, emphasized the expenditures for the honor and support of the state and had little room in their classification for any other outlays of government. Expenditures for the general benefit of the masses had no place in their classification.

Sir William Petty, an English writer about 1650, suggested the first practical, comprehensive classification. It included such items as (1) public defense of the state; (2) maintenance of the government, (3) support of religion, (4) education; (5) orphans, and (6) public works of all kinds Casa, an Italian writer of about 1850, worked out a classification of public expenditures along practical lines of state organization He suggested, first, constitutional expenditures, which included all government outlays for the head of the state, or ruler, the legislative, executive, and judiciary departments; and, second, all moneys spent for adminis-

trative purposes, such as (a) the collection of taxes, (b) public debt disbursements, (c) maintenance of the treasury, (d) public security, and (e) promotion of general well-being. In this classification, it is obvious that Casa was attempting to be practical, that is to say, to work along the lines on which the state was organized.

Other writers attempted to group state expenditures under such general headings as (1) ordinary and extraordinary, (2) necessary, desirable, and superfluous; (3) productive and unproductive; (4) capital and consumptive, (5) economic and uneconomic; and (6) useful and wasteful As bases for the classification of public expenditures, these various headings are too general and indefinite to be of practical value. They are presented here because they are frequently used by modern writers in the discussion of state expenditures

Professor H. C. Adams, formerly of the University of Michigan, proposed a classification of state expenditures along the lines of protective, commercial, and developmental. His classification was sufficiently definite to be of some practical value. Under the general heading of protective, Professor Adams included all state outlays for maintenance of the army, navy, and police; under commercial, he grouped all the public expenditures for aiding commerce and industry; and under developmental, he put all money spent for general improvement of social and economic conditions

Cohn's Classification One of the most interesting classifications of public expenditures is that proposed by Professor Cohn, of Germany. Particularly useful as a basis for a discussion of public expenditures, it comprises four general headings. The first is state expenditure for common benefit. All government outlays, such as those for protection of life and property, departments of government, education, highways, parks and playgrounds, coinage, weights and measures, diplomatic and consular service, maintenance of public buildings, aids to and development of commerce and industry, that are made for the general benefit are included under this general heading of common benefit All items of expenditures that fall into this general group should be financed out of income from taxation, because the specific benefits that the individual may receive from any one or more of these state activities cannot be sufficiently determined to allocate any portion to

him. In other words, there are certain activities of the state that carry no traceable individual benefit, but are performed for the common good and therefore should be supported only from funds that have been raised by as general a system of taxation as possible

The second heading as suggested by Professor Cohn, includes those state expenditures that carry only individual benefits, namely, for persons who, because of their economic or physical condition, are unable to contribute by means of taxation to government for these services. Expenditures falling into this class are for the support of defectives and dependents, of those who have lost earning power due to accident, physical incapacity, old age, and of those who, for one reason or another, have become destitute Such people have become a public charge They must be supported out of public funds, even though they are unable to contribute toward their own maintenance

Cohn's third heading comprises those state expenditures that are for individual benefit, part of which is paid by each recipient This list of outlays includes administration of the court systems, maintenance of patent and copyright privileges, chartering of corporations, paving of streets, laying of sidewalks, and building of sewers. In the case of the courts, the costs that are assessed to the litigants pay only a small part of the administration of justice in civil suits The situation is different in criminal prosecutions where the state may assume the entire expense, even to the extent of furnishing the defendant with legal services But in civil suits, it is an advantage to the community at large to provide a means for the administration of justice, and, at the same time, the individual secures a personal benefit by having a place where he may compel the defendant to pay damages for a breach of faith.

The proper division of costs of government service between the individual and the public treasury is a matter of conjecture. In some instances, as in the case of chartering a corporation, securing a license to operate a business, or obtaining a serum treatment at the municipal clinic, the charge to the individual may be nominal and cover only a small part of the maintenance of the department. In the case of the United States Postal Department, the general intention is that the postal receipts from all classes of mail shall pay the entire expense of operation. During the last one hundred fifty years, however, the Post Office Department has, with a few exceptions, operated under a large

annual deficit which has been met out of appropriations from the general funds in the United States Treasury. Although it is expected that the Postal Department shall fall under class four, in which all the costs of its use will be paid by those who use its facilities, actually it comes under the third heading with the expense divided between the United States Treasury and the individual.

The fourth and last heading that Cohn includes in his classification of public expenditures, comprises those government outlays that are made strictly for the individual benefit. In this case, the individual is required to pay the entire cost to the state for furnishing such service A few examples in the United States are the power and light and nitrates sold by the TVA, the service charges for passing through the Panama Canal, and freight rates over the government-owned Alaska Railroad [6]

Sometimes the state maintains certain commercial industries for fiscal purposes, such as the tobacco monopoly of France, the vodka distilleries of Russia, or the coffee valorization plan of Brazil In such cases, governments have fixed the prices on these commodities to the public at the point of greatest net return At present, governments are providing an ever-increasing number of facilities that may be classed as exclusively personal benefit and whose entire expense of maintenance is imposed upon the individual who uses them.

Classification Used by Our Federal Government The United States Government, in its budget, has developed a complete classification of public expenditures and federal revenues along very practical lines. A brief study of a recent budget will show that an attempt has been made to set forth all the facts of expenditures in great detail and to show as clearly as possible how and for what each dollar is spent. In the budget an attempt is made to show the costs of all the services that the government performs The general arrangement of these expense data, as found in the 1945 federal budget, is outlined as follows.

I. Real government costs
   1. Constitutional
      A. Legislative
      B. Executive
      C. Judiciary
   2. Departments and agencies
   3 National defense
   4. Public debt
   5 Capital outlays

II. Developmental costs
  1. General public works program
  2 Agricultural adjustment
  3. Civil conservation corps
  4. Social security

III. Recovery and relief costs
  1 Aids to agriculture
  2. Direct relief
  3. Public works
  4. Aids to homeowners
  5. Revolving funds

Department of Commerce Classification for Cities. For the purpose of compiling and analyzing the financial statistics of state and local governments, the United States Department of Commerce has prepared, through the Bureau of the Census, a very complete classification of public expenditures. The general plan, which is explicitly devised for states and for cities of over 10,000 population, may be briefly outlined as follows:

I. Governmental-cost payments
  1. General government
  2 Protection to persons and property
  3 Health and sanitation
  4. Highways
  5 Charities, hospitals, and correction
  6. Schools
  7. Libraries
  8 Recreation
  9 Miscellaneous
  10. Public service enterprises
  11. Interest on public debt

II. Non-Governmental-cost payments
  1. Public indebtedness
  2. Fund transfers
  3. Refunds
  4. Cost of collecting taxes

Conclusion. There is no one classification of public expenditures that is good for all time and for all types of government. Expenditure data should be so arranged as to show what the government does with tax money, including the nature of activities and duties that are being performed. It should indicate the department or bureau that is responsible for making the expenditures, and the objects for which the money is being spent, such as heat, light, fuel, services, and supplies, so as to afford an easy check upon the efficiency of government.

Governments, like private corporations, make expenditures for current consumption and for capital constructions. The citizen who follows the fiscal affairs of his government would like to know how much of the total outlay is for immediate use and how much will yield a service for years to come. When he examines the annual expenditures accounts of his government, he expects the data to be arranged so as to show the amount of money spent for purposes of immediate consumption and that which goes into some form of public capital.

Finally, a good classification of public expenditures should make it easy to follow the money from the time it leaves the pocket of the taxpayer until it is consumed in the public interest, so that any irregularity in handling funds may be easily discovered. Our greatest cases of public forgery and embezzlement have arisen out of a crude and careless system of accounting. That government which is able to devise the most practicable system of classifying public expenditures will be most efficient in handling the taxpayers' money.

Summary. The principle of public expenditures cannot be dissociated from the social and political attitude of the people. The tendency is for the community to become more socialistic and to impose greater burdens upon the government. The members of a community have learned that certain social functions can be performed better and more efficiently through their collective efforts Unequal distribution of wealth has been no small factor in imposing additional burdens upon government. In many instances, the per capita costs of government increase more rapidly than the growth of population or of the wealth of the community, which suggests that government operates under a law of increasing cost It is not possible to dissociate public and private economy. They are interdependent and their distinctions are not as important as is sometimes believed. They are both part of the general economy. A proper classification of public expenditures is very important, chiefly because of its aid to greater efficiency of government operation and because of its stimulation of public interest in the fiscal problems of the state. Classification of public expenditures is just as vital to the state and local units as it is to the central government.

TEXT QUESTIONS

1. Define the term credit dollars as applied to government spending.
2. What is the tendency of the cost of government in an increasing population area in terms of absolute cost as well as unit cost?
3. Discuss the place of the "profit motive" in government operations
4. How has the "wave of humanitarianism" affected public expenditures?
5. Discuss fully Professor Cohn's four classes of headings for government expenditures?
6. In what way does the federal government classify public expenditures in its budget?
7. Tell briefly what constitutes a good classification of government expenditures.
8. What is the tendency of government costs year in and year out disregarding changes in population?
9. Discuss the growth of state functions under the following headings:
   a) Weimar Constitution
   b) Fascist Corporative State
   c) Soviet Constitution.
   d) Chinese Constitution of 1947
10. What limit is there to the government's ability to spend; what limit to its ability to raise money?
11. Discuss the principle laid down in the case of McCulloch v Maryland
12. Should an annual balance be maintained by the government? Why?
13. Why should the government so carefully classify its expenditures?
14. In 1944–45 the federal government was spending over $8,000,-000,000 a month. How was this money raised?

APPLICATION PROBLEM

1. What specific factors would you take into consideration in determining the taxing and borrowing capacity of your state?

RESEARCH TOPICS

1. Read a few of the early state constitutions, and then turn to the later ones of the same states. Make a comparison of the functions covered in each instance How do you account for the limited number of functions covered in the United States Constitution? How is it that these functions have been greatly expanded without constitutional amendments? Do you think these tendencies have any bearing on public expenditures and taxation?

2 Read the Soviet Constitution, the Chinese Constitution, and the Constitution of Weimar, and note the coverage of functions In each instance, obtain budgeted or actual expenditures and analyze

3 Visit your local township or city tax assessor's office. Get the total expenditures of the particular governmental unit, and calculate the per capita expenditures for several years, and note the trend How do you account for or explain the long-time trend or behaviorism of per capita expenditures?

4 Does your local assessor's report contain a classification of expenditures? Is it meaningful to the rank and file voter? Could you suggest improvements? Also consult the latest reports of your state.

5. What correlation can you show between the unit of population cost of your state government and the growth of population in your state?

6. To what extent does your local unit of government determine upon its expenditures before it arranges its sources and amount of income?

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CHAPTER 5

ECONOMIC EFFECTS OF PUBLIC EXPENDITURES

A consideration of the effects of public expenditures obviously involves the principles of economic theory. For example, suppose the government spends a billion dollars. What effect will such expenditure have upon the general level of prices or upon a price in particular; upon wages, rents, interest, and profits; upon the volume of production and consumption; upon the volume of loans, bank discounts, and the entire structure of exchange and price systems? Government expenditures, in their modern connotations, may articulate with every phase of our economic, social, and political institutions, and greatly modify their character. These questions, and others, will be considered in this chapter.

Types of Public Expenditures. The term "expenditures," as it is understood in public finance, may be used in more than one sense In the first place, it may be used to connote those real government-cost payments that represent actual outlays for which there is no direct return in the future When once these expenditures are made, they, like consumers' goods, are gone forever. Some services, like wages for labor and money spent for materials, may be consumed at once, while capital structures, such as public buildings and harbor installations, may remain in existence for long periods of time. In the second place, the term "expenditures" may be used to refer to those non-cost government payments that are more or less temporary in their nature and that yield a monetary return to the state sometime in the future In this country the federal government, especially, has made heavy investments in railroads, banks, and many manufacturing establishments. It is expected that these expenditures represent only a temporary outlay and that some day this money will be returned, with interest, to the United States Treasury. There are other temporary expenditures that might be classed under the heading of non-cost payments, such as allocations among departments of the federal government or to state and local units, trust fund payments, annuities, and grants

Public Expenditures and Business Conditions. A study of the economic effects of public expenditures may be treated as a highly

theoretical subject. In its entirety, it involves the laws of production, consumption, exchange and distribution, and may be considered under these general headings Public expenditures affect the economic system particularly through their effects upon wages, interest, profits, rent of land, and the price structure. Whatever causes changes in the nature of these great divisions of economics will have repercussions on general conditions. Public and private finance are, therefore, interdependent divisions of one great economic system.

When expenditures are made, goods and services are bought and sold, and the general economic situation is affected. Price and wage levels, for example, undergo a change as a result of this new demand. In general, the economic results are the same whether the money is spent by the government or by private enterprise.

To trace the economic effects of government expenditures offers an opportunity for a study in the theory of political economy. It is common knowledge that a sharp rise in the general level of prices always accompanies a war period. During World War I, prices began to rise rapidly during the latter part of 1914, and they did not reach their peak until early in 1920, or more than a year and a half after the armistice was signed Just how much of this price stimulation was due to the catalyzing effect of government expenditures, it is impossible to say, but it must have been great. During the period from 1914 to 1918, the total expenditures, including direct and indirect costs, by all the countries involved in the World War were over $337,000,000,000.[1] Such enormous outlay would be enough in itself to cause a great upswing of prices.

Economic Effects of Taxation. When the government exercises its sovereign power of taxation, it takes a portion of the wealth of its people to be spent for public purposes The first effect is that the government has just that much more to spend and the people have less by an equal amount. Except for a possible pyramiding of inflation by borrowing on government bonds, the amount of purchasing power in a community is about the same immediately after as before a tax has been collected It all amounts to a transfer of wealth from the individual to the government to be spent or saved as conditions may demand Therefore, if there is any truth in the quantity theory of money, the exercise of the taxing power may not affect the general level of prices Of

[1]Ernest L Bogart, *Direct and Indirect Costs of the Great World War* (New York Oxford University Press, 1919), p. 299

course, the government may not, and usually does not, spend the money in exactly the same way that the people would spend it if it were left in their possession, or even buy the same commodities. But, on the whole, there is no immediate change in the total amount of expenditure, and business might be expected to continue about as usual The compensatory, multiple, and acceleration effects of government spending will be considered later. Only these simple aspects need be presented here.

The taxing power may be used by the government as a stabilizer or as an evener of commodity prices. If a tax is imposed on a specific commodity or a group of commodities, the particular price is likely to rise by some amount, depending on the cost conditions of production. Since a tax is usually regarded as one of the costs of production, the businessman will add it to the price if it is at all possible to do so But in the long run, a rise in the price of one commodity is likely to cause a corresponding fall in other lines and so, in the end, may not disturb the general level of wholesale or retail values It is, therefore, fairly clear that by a change in the tax rate, the government may exert a stabilizing effect upon prices This entire argument is founded upon the theory of shifting of the tax burden, with the ultimate incidence upon the consumer. Just how and to what extent the tax burden may be transferred to other individuals or economic groups depends upon the cost conditions under which the commodity is produced In some cases, the tax may not be shifted by the businessman at all, or only in part In other cases, the whole of, or even something more than, the amount of the tax may be transferred to consumers

The statement that all taxes on business are immediately shifted on to the consumer is not true in every case From an accounting point of view, businessmen regard a tax as an element in the costs of production and therefore as presumably recoverable through higher prices to the consumer. In any business, as expense of operation increases, it is expected that enough more is collected from the consumer to cover the additional costs. Therefore, if a new tax or an increase in old taxes is responsible for the higher cost, it might be expected that business would increase its selling price in about the same proportion But, in such assumption, the behavior of the consumer is not fully taken into account. As prices are advanced, the consumer may be expected to curtail his purchases. These decreases in consumer purchases will reduce

the volume of production, which will have its repercussions on the unit cost The final result is that this reduced volume of sales and increased unit cost will affect the profit, which may be the incidence of at least part of the tax.

The general assumption that all business taxes are shiftable is not true if the business is operating at a loss, or if the levy is on net income or on excess profits. If it were possible for a business always to shift its tax on to the consumer, it should likewise be able to recover any other element of cost by making similar adjustment in its price program Under such conditions, it would follow that no business need ever operate at a loss that it could not recoup by increasing the price. But such is not the case The real cause of the deficit is probably due to the fact that the business is unable to sell sufficient volume at a price that will cover all costs The consumer cannot be coerced into buying more than a certain volume at a given price Because of substitutes, the exceptions, even in the case of necessities, are very rare

The same general reasoning applies to a tax on net income or on excess profits. In these cases, the ordinary costs of operation have already been subtracted. The business is operating at a profit; the tax thus falls upon the residue The obvious conclusion is that a tax upon net profits, or upon excess profits, falls upon the owners in equity of the business This whole problem of tax burden is connected with the investor The differential that remains after the tax has been paid out of net income should be sufficient to attract new capital into the business; otherwise, the business might have to struggle along on a starved existence

The interrelation between the general level of prices and expenditures and taxes now becomes obvious. When government is forced to pay higher prices for commodities and services that it buys, taxes must inevitably be increased or government must economize. The purchasing power of the dollar has decreased, and the government is faced with the necessity of increasing its volume of revenue to maintain the same standard of efficiency It is, therefore, impossible to devise a burdenless system of taxation It may be so arranged, however, as to distribute its economic effects in a more equitable manner among those who are most able to bear it.

Concrete Cases of Economic Effects. It has already been stated that governments must have material and immaterial aids

in order to carry on their functions. They must have certain kinds of goods, such as materials for use in the construction of public buildings and various articles of clothing to supply men in the Army and Navy. Whenever the federal government has executed a large building program, the first obvious effect has been the increase in demand for every kind of building material, which tended to stimulate activity in these various lines. Prices of brick, stone, steel, and lumber were affected; and their production was increased Labor and capital tended to flow into these forms of investment, and thus to reduce the production and the supply in other fields. Prices of commodities in these industries from which the factors of production were taken also tended to rise because of the decrease in supply. Many laborers, both skilled and unskilled, were required, and, because of the general shortage of workmen, wages tended toward a higher level Labor already employed was drawn from other fields, thus reducing the supply and effecting a rise in wages in these industries. The capital-goods industries were also stimulated, and the interest rate tended to rise. Thus, government expenditures affected the price of commodities, wages, and the rate of interest.

Much the same reasoning may be followed in regard to the economic effects of government expenditures for shoes. If several million pairs are needed, the government goes into the market and buys them just like any one or group of its citizens. In other words, the modern government enters into competition with its citizens in supplying its needs, and thereby may have a great influence over the price. But the entire economic effects are not limited to an article like shoes or building materials. Shoes, like almost every other article in commerce, are a composite of many commodities. And just as an additional demand for shoes will tend to increase their price, so this same effect will spread to all the component materials that go into their manufacture. Thus there may be an increase in the price of hides and leather, for example, that will finally find its way back to cattle and ultimately increase the purchasing power of the farmer.

The New Deal administration embarked upon an enormous government spending program with the hope that, by "priming the pump," the country could be put back on the road to prosperity The New Dealers claimed that all the economic mechanism needed was a push forward, and that it could be done by government coming into the market and spending a few billions of dollars.

It was contended that the country needed more money in circulation To effect such a purpose, the devaluation of the dollar and the credit inflation program of the Federal Reserve Board was adopted.

The federal and state governments did "pump" billions of dollars into the market by innumerable channels. The general price level did rise and business conditions did show some improvement, but it is impossible to say to what extent they were the result of government spending. The government officials were slow to realize that the causes of the economic depression lay deeper than in finance, and that the possibility of spending the country back to prosperity was exceedingly doubtful.

The spending policy of a government is very different in many respects from that of an individual, and it may vary considerably between normal and abnormal conditions If a state were to find itself, for example, at war with a major power, it would be necessary to make enormous expenditures. It would immediately need huge supplies of certain types of commodities, such as food, chemicals, steel, and clothing. Because of this great and unexpected demand, the prices of these commodities would be stimulated to a very great extent, while many other lines would be but little affected, at least not immediately. The manufacture of furniture, toilet articles, educational supplies, and the issue of publications might be suddenly curtailed.

During the first World War, all construction projects not essential to the prosecution of the war were stopped. The effect of such conditions was to distort the entire economic system and to divert it from its normal channels of operation. The factors of production were withdrawn from their most productive uses and directed into investments where they were less efficiently employed Credit was so overstimulated that, when normal conditions were resumed, it was difficult to contract it back to a peacetime basis. During the war wages became excessively high, with great inefficiency in the ranks of the laborers Commodity prices increased very rapidly, which caused living costs to soar Business costs mounted as the wave of economic activity continued, becoming cumulative as time passed. The entire country was experiencing a period of *false* prosperity.

When the war closed in 1918, the great volume of government spending was suddenly brought to a halt. The whole country was slow to realize that the type of economic system that had been

organized to serve the demands of the war period was not of much use during a time of peace. The task of putting the country back on a peacetime basis was fraught with great difficulties. It was necessary to restore millions of soldiers to the ranks of labor, to contract credit, to bring prices to a normal level, to lower factory costs, and to restore the efficiency of labor. Units of land, labor, and capital were withdrawn from their no-longer-productive forms of investment and returned to production of goods for use in times of peace. The great demands of government during the war for certain types of goods had rearranged all the elements that constituted the economic system, and to return to a peacetime basis, as is especially demonstrated by the experience between 1929 and 1939, is both difficult and uncertain

Economic Aspects of the Public Debt. As has already been explained, public and private economy have much in common. There is a great degree of interdependence between the two financial systems. Both affect the distribution of the national income, and each is concerned with the economic processes of production, consumption, and exchange of goods and services. The total effect of a public fiscal policy can be determined only by noting the reactions of expenditures, taxes, and loans upon the national income and upon its distribution.

From the standpoint of their economic effects, the analogy of private and public debts is by no means complete The government, instead of the individual, borrows and does the spending. The economic effects of the public debt cannot be measured by the accounting method of merely noting the volume of outstanding obligations, but must be measured by the manner in which it is being spent Funds borrowed for public purposes may be spent in such a way as to have a very beneficial effect upon the whole economy. Therefore, the question of whether to increase or decrease the public debt depends upon the general economic situation at the time

The assumption that a public debt is inherently an economic evil is not warranted A public debt may be so managed as to contribute greatly to the sum total of utilities and general welfare of the community. It is difficult, if not impossible, to find any case in modern times when the public debt was the direct or even probable cause of economic distress

A public debt may be created for several reasons First, it

may represent a sum of borrowed money that has been spent either for a wasteful and unnecessary purpose, as a war of aggression, or for some temporary or immediate utility, as for current expenditures. In either case, the benefits have disappeared, leaving only the principal and interest of the debt to be paid out of the future net income of the people. Second, the public debt may represent an investment that the government has made in some permanent utility. Prior to the beginning of expenditures for war preparedness in the latter part of 1939, a large part of the federal debt represented an investment in such projects as TVA and also in social security and rehabilitation of the unemployed. Outside the support of the original functions of legislative, executive, and judiciary, these investment activities represent the highest type of service that the government may perform.

The accumulation of a public debt means that, out of the borrowed funds, certain added expenditures are made, which may stimulate economic activity If not properly managed, such expenditures may even be the cause of inflation and payment of the debt may play an important role in deflation. In general, there is no particular harm in a large public debt so long as it is kept within a reasonable ratio to the national income The public debt, as well as taxation, does not necessarily constitute a drain on the total purchasing power of the community, but both must be so devised as not to discourage unduly the economic processes of production, consumption, exchange and distribution The public debt may be so managed as to encourage new investment and thus more fully utilize natural resources.

Public Expenditures and the Business Cycle. It has been suggested that the government should increase public expenditures during a period of business depression with the view to mitigating or eliminating such fluctuations. It is hardly possible that the volume of government expenditures may be so greatly increased for such items as wages and materials as to have any substantially great general economic effect, even during normal times Rather, the real possibility for greater outlays by the government is through the channels of an expanded public works program But the questions then arise: Should it be regarded as a legitimate function of the state to deal thus with business depressions? Is such use of this device—public works—economically sound? What are its possibilities and limitations when so employed?

The planning of public works has been severely criticized because such plans have not scheduled the public works for the times when they were most needed. The frequent practice of governments has been to expand their public works programs principally during periods of prosperity, because at this time the funds are raised most easily. But this policy has been almost universally condemned by economists, because it tends to exaggerate the amplitude of the business cycle instead of mitigating its effects. During a period of business depression, the most important problem is that of unemployment. Millions of people are without income. Sooner or later the state must supply them either with employment or with the necessities of life It then becomes a matter of direct relief or of employing these people at a wage upon some public works project.

The use of public works projects as a means of dispensing relief has also been condemned on the ground that only a small percentage of the unemployed population is reached, that the costs of operation are excessively high, that the inefficiency of labor is very great, and, finally, that waste is likely to arise through politics If public works projects are to be carried out during a period of business depression, the government must do some long-range planning. But the plan of budgeting public constructions over long periods in the future is not entirely satisfactory, first, because these projects may be of such nature that the public interest cannot wait, second, because such policy is posited upon the doubtful general theory that a business depression is a financial condition that may be relieved only by expansion of the volume of money and credit.

The New Deal administration first adopted this latter assumption by making money and credit available to the businessmen, but there were no demands at that time for this new capital because there were not sufficient buyers in the markets with purchasing power to take more manufactured products The old theory that general business may be expanded or contracted by merely lowering or raising the bank discount rate has long been exploded and is no longer given much credence by serious economists. The depression of 1932-39 has conclusively proved that the volume of currency has little effect upon such an economic condition. Money and credit were never so plentiful as they were when the depression was at its worst.

That a serious unemployment problem accompanies every business depression is well known to everyone, but the degree of the efficacy of government expenditures in this direction is not conclusively settled It is very doubtful whether an expansion of public works can materially affect the general level of unemployment over long periods of time. At most, during an industrial recession, the government may be expected to employ only a relatively small proportion of those people who have been discharged by private industry. The most logical business into which governments may enter to effect relief for the unemployed is some kind of public construction, which means that only those in this and cognate industries will receive any direct benefit. Cyclical fluctuations of employment in construction and related industries are, therefore, the only ones that will be materially aided by a government relief program during a period of depression. The natural stimulus is for governments to expand activities in the construction industry to a greater extent in order to spread the benefits as far as possible. But such policy only results in overbuilding in these lines, leaving little room for development during subsequent prosperous times.

It is also a mistake to assume that all public employment during a period of depression is a net increase. Because of the prestige and the certainty of employment, many people would rather work for the government, even at lower wages, than for private enterprise Therefore, some employees may be drawn away from other lines of employment and thus create a dislocation of labor that later may prove serious It is also possible that public works projects may be financed from funds that have been taken in part from private industry and therefore do not represent a net addition to the total expenditures in the country. It is, therefore, presuming too much to expect that a mere transfer of public construction projects to times of depression will do little more than to mitigate the economic evils of such periods.

Many reputable economists contend that business depressions are caused by basic maladjustments in the industrial system, which the government should attempt to mitigate or to solve by some appropriate action. These economic maladjustments are widely variant in origin, but usually they may be found in the fields of production, consumption, distribution, and finance If economic maladjustment tends to be general, as it usually does,

the production of consumers' goods in all lines greatly expands. Supply soon exceeds demand, and difficulty in marketing the output at a price that covers costs of production is later experienced. In other words, the supply of goods is out of balance with the demand, and the question is raised: What can government do about it? When it becomes obvious that there are not sufficient markets for the increasing supply, the businessman suddenly calls a halt on further production. He partly or wholly closes his plants, discharges employees, and cancels orders for raw materials. Suspended wage earners mean reduced buying, and the evil becomes cumulative For reasons already discussed, the success of government action in mitigating or solving these economic evils is questionable

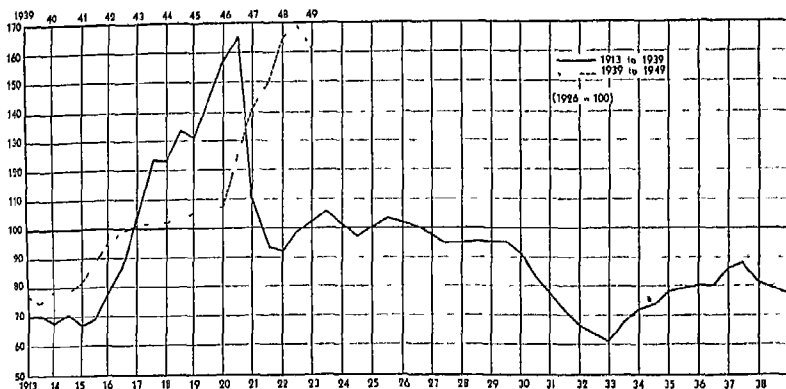
In 1928, when unemployment first began to appear, Senate Bill 2475 provided for a reserve fund of $150,000,000 that was to be expended on public works projects whenever the value of private construction contracts fell below 20 per cent of the period for 1926-27. This proposal never became a law, but it furnishes a concrete example of an early attempt by government to solve the problem of unemployment

Economic Effects of War Expenditures. As has already been stated, the general level of wholesale and retail prices rises during a war period The cost of living also rises at a rapid rate. This is due to an increased demand for all types of commodities and services, increased purchasing power, and a shortage of consumer goods

In the following graph[2] the heavy line represents the trend of wholesale prices during the first World War and the period of recovery from 1913 to 1939. The broken line traces the trend of the general wholesale price level from 1939 to the present[3]. The year 1939 is chosen as the dividing line because it was at that time that the federal government definitely changed to a war basis

Both curves are plotted on the same scale and area so as to afford immediate comparison After a slight fall during 1913 and 1914, the heavy line shows how rapidly the general level of wholesale prices rose from an average of about 68 in 1915 to 167 2 in May, 1920 This period includes the war year. It should also be

[2]The data for these two curves were obtained from the Bureau of Statistics, Department of Labor, Washington, D C These curves represent the trend of the index numbers of wholesale prices as issued by this bureau

[3]The behavior of the curve as represented by the broken line will be discussed more fully under the next chapter on control It is given here only for comparative purposes

observed that prices continued to rise for some eighteen months after the Armistice in November, 1918, when the index number stood at 136.

From the high point in May, 1920, the general level of prices fell to an average of about 95 in 1921, or more than 72 points during this period of a little less than two years. Such a sudden and great drop in the general level of prices proved quite a shock to the whole economy This may be explained by the sudden contraction of credit and curtailment of purchasing power, and by the great reduction in federal expenditures. The total federal expenditures reached their peak in 1919, when they were $18,510,000,000 In 1920, they dropped to $6,400,000,000, 1921, $5,110,000,000; 1922, $3,300,000,000; 1923, $3,290,000,000; and in 1924, $3,060,000,000[4] The war had come to a close, and, except for the ordinary purposes of government, all expenditures for combat material suddenly stopped Numerous industries, such as steel and chemical, which had greatly expanded their production capacity to meet the war needs, suddenly found themselves in possession of great quantities of machinery, buildings, raw materials, and even inventories that were of little or no use for any purpose, They hastily contracted their operation to fit the ordinary demand, and allowed the excess capital to remain idle The number of unemployed increased for two main reasons first, because of reduction in volume of production, and second, because of the greater use of machinery.

[4] *Annual Report of the Secretary of the Treasury for Fiscal Year Ended June 30, 1941*, p 414.

Between 1921 and 1929, industry made an attempt to contract back to a peacetime basis and more or less stabilized its activities. In fact, many people refused to believe that further retractions were possible Consumers' goods, which had been worn out during the war years, were being replaced. Savings, which had been accumulated out of wages and profits during 1915 to 1920, were spent for consumer needs. During that period, federal expenditures were also fairly stable. They remained constant at about the three billion dollar level.

The Federal Reserve Board, in conjunction with the various Federal Reserve Banks and their members, inaugurated plans to stimulate economic activity. In spite of unemployment, business competed actively in the markets and a general wave of optimism prevailed toward the end of the period Call loan rates fell in New York City, and, because of easy money, the years of 1928 and 1929 saw a boom in the stock market, which got out of control just before the break in November, 1929. The period from 1921 to 1929 may be characterized as one of adjustment from a wartime to a peacetime economy, affected by only the ordinary governmental expenditures.

In November, 1929, the general level of wholesale index number of prices was 93 5 It then fell rather consistently and rapidly until it reached an all-time low of 59.8 in February, 1933. The economic collapse was almost complete. Unemployment mounted at a rapid rate. Business failures and bankruptcies piled one upon the other in rapid succession Every type of business concern that survived the collapse, whether retail, wholesale, or manufacturing, either greatly curtailed or temporarily suspended its activities Many railroads and insurance companies were on the brink of failure. A few states defaulted on the payment of the principal and interest of their bonds. Many cities and other local units of government were unable to continue their ordinary activities, and, in a few instances, they went through a type of receivership and reorganization. Schools were closed and other local government functions were either suspended or curtailed. During that period, many local units of government issued tax anticipation warrants and paid their obligations in script.

Section 77-B of the Federal Bankruptcy Act was passed, which gave the local courts the discretion of suspending a foreclosure proceeding if the industrial concern was able to present a reasonable financial plan of reorganization and some assurance of its

ability to continue as a going business. Federal and state banking systems were unable to withstand the financial strain, and in March, 1933, a complete bank holiday, or moratorium, was declared.

The period from November, 1929, to February, 1933, may be characterized as one of almost complete industrial collapse. During that period, federal expenditures remained fairly constant around the three-billion-dollar level. That period laid the ground for what later proved to be unprecedented outlays. The financial burden of reconstruction and rehabilitation was to be shifted on to the federal and state governments. Beginning with 1933, federal expenditures were to play an increasingly important role in the whole future of economy

When the New Deal administration came into power on March 4, 1933, the entire policy of federal expenditures was changed. Until that time, it was the general feeling that the federal government should spend money for purely political purposes only. But the economic collapse during the period from 1929 to 1933 convinced even the most skeptical that it was necessary for the federal government to aid in recovery and reconstruction. Congress had already provided for the Reconstruction Finance Corporation, which was to make large loans to private business corporations, insurance and railroad companies and other public utilities, banks, and state and local governments. Then followed in rapid succession the National Industrial Recovery and Agricultural Adjustment Acts, both of which were later declared unconstitutional, the Tennessee Valley Authority; a work-relief program; a social-security program, aids to the agricultural classes and homeowners; support to organized labor in the NLRB and Wage and Hour Law; and banking reform. In 1933 and 1934, federal expenditures rose from $3,860,000,000 to $6,010,000,000 In 1936, the total expenditures reached $8,000,000,000, at which figure they remained until the United States entered upon a program of war preparedness in the latter part of 1939 The period from March 4, 1933, to September, 1939, may be characterized as the time when the federal government participated heavily in economic reconstruction, recovery, and rehabilitation

The federal government began its military-preparedness program the latter part of 1939 The volume of expenditures was increased, and a new and heavier tax program was developed.

The total expenditures in 1940 were $8,890,000,000 The totals increased rapidly until they reached $100,404,597,000 in 1945, the year of maximum expenditure for World War II.

Sources of State Funds. Public expenditures presuppose some kind of income to the state, and it is appropriate to mention the various sources of revenue at this time, although each will be discussed in detail in later chapters.

The state needs services and commodities To satisfy these wants, it must provide itself with purchasing power, which may be supplied by various methods First, the state may secure a loan from its people, which is in the nature of a voluntary contract In that case, the state goes into the market in competition with private borrowers and offers a rate of interest for the loan. This act quite evidently affects the interest rate in the money market, and also the flow of the factors of production. There is a question whether public borrowing should be regarded as real income at all since the money derived by this means must at some time in the future be returned to the lender. But it is an immediate income and should be considered from this point of view

But the state may secure its money income in another way Through its sovereign power, it may exercise its right of taxation, which is the forcible taking of a portion of the wealth of its citizens to be spent for public purposes Taxation amounts to a transfer of part of the private wealth to the state to be spent by the government. To that extent, there is no economic advantage. But in so far as the dollar, when spent collectively, yields a greater net return to the individual and the group as a whole, to that extent it accords with the doctrine of maximum social advantage. Sometimes this money would be more effective in the hands of the taxpayer, because, under certain conditions, he might be able to spend or to save it to a greater advantage than if it were turned over to the state. In regard to the economics of public expenditures, it might be a safe rule to follow that these government outlays must be made in such manner as not to remove or impair any instrument of, or incentive to, the essential processes of production and to interfere as little as possible with the useful elements of production

A third very important method by which the state may raise its purchasing power is by issuing irredeemable paper money. To make this currency circulate, it must be made legal tender by law

The people must receive this paper money in full payment for commodities, wages, and all debt obligations. In effect, such issues constitute an enforced loan that the state has imposed upon its people But if there is an overissue, as usually happens when the state expenditures force a resort to this method of raising revenue, this inflation imposes an economic condition upon the people that is not unlike taxation.

The fourth source of state income is from profits from the operation of industrial enterprises by the government Many governments, especially in Europe, operate public enterprises They are able to secure considerable revenue from these sources.

Some Final Aspects of Public Expenditures. There is much fallacious reasoning in regard to the purpose of public expenditures and the proper uses to which they should be put. Some economists justify expenditures by the state on the ground that they "put money in circulation," "cause prices to rise," "stimulate business activity," and "create work for the unemployed " But any outlay by the state should render a distinct and lasting benefit to the community as a whole, otherwise the money is not wisely spent.

The state must have services. In this country, enforced labor is constitutionally prohibited, except for those who have been convicted of some crime Some states employ convict labor in road building, public constructions of all kinds, and in prisons In some instances, the states have attempted to make their penal institutions self-sustaining by selling on the general market the products manufactured by prison labor In this way, it was hoped that the community could be relieved of taxation which was necessary for the support of these institutions of correction But thus far, such attempts have largely been thwarted by the opposition of labor organizations. The irksomeness of enforced labor makes it inefficient and hence expensive in the long run

It is doubtful whether the state could save much by accepting the services of gratuitous labor There are thousands of public-spirited men and women in this country who, after they have made their fortunes, are ready to donate their services to the affairs of the state But such free services are oftentimes unreliable, irresponsible, and frequently lack the peculiar training that the government requires It is undemocratic for the state to accept too much of this free service, because, since obviously only

the wealthy could serve, such a policy would tend to concentrate the affairs of government in the hands of the well-to-do. Because of the low compensation, however, many high posts of the federal government are filled only by those who are independently wealthy. The emoluments of the United States Ambassador to the Court of St. James, for instance, pay only part of his expenses, to say nothing of a compensation for his services in the office.

In general, it is preferable that a government secure its services by paying a sufficient compensation to attract competent administrators and employees into public office. Such a policy would make the offices of government open to poor and rich alike, and would provide a more efficient and reliable corps of public officials. The little saved in taxation and public expenditures by accepting gratuitous services would be more than counterbalanced by a more efficient administration of governmental affairs by competent officeholders paid out of state funds.

Public expenditures may be made so as to have certain other general effects. They may be put to such use as to affect the ability of the people to work and to save by increasing their efficiency A better system of public education may be established that will offer vocational training to the worker and generally improve his standard of living The state may provide better health service to the working classes by building and equipping more hospitals, providing free clinics, and by supplying medical advice and consultation at public expense. Whatever would improve the health and skill of the worker would obviously make of him a more efficient producer and a more useful citizen.

Public expenditures may be made also in such a way as to affect the desire of citizens to work and save. If the state gives definite assurance to its people that, in case they cannot support themselves after they retire from active life, it will provide them with the necessaries of life, it is only human nature that many will not make much effort to save for these nonproductive years. It has always been a great problem of charity to know when to give aid, and how much, to the unfortunates so as not to affect their desire to provide for their own needs.

When the dole was first used in England, many people refused to receive it But once they became the recipients of such aid, they demanded that the state continue it on some basis. The more certain people are that doles, grants, pensions, and aids may

be expected from the state by them when they are not able to provide the necessaries of life for themselves, the less likely they are to save in anticipation of such period.

Economic Justice and Public Expenditures. Many economists have suggested that by means of public expenditures the state would be able to effect a better distribution of wealth, and to correct the inequality of income that now exists among the economic classes. Through the power of taxation, the state could take from the wealthy and spend the money for the benefit of the poorer classes by providing free schools, parks and playgrounds, free hospitalization and medical advice, and by giving aid in cases of old age, industrial accident, and unemployment. It is not generally regarded as a sound policy to give this money to the poorer classes outright It is considered preferable that the state should spend it in such way as to provide them with the necessities of life. By supplying better vocational training, the state may make it possible for the capable young man or woman to step out of poorly paid jobs into the skilled professions

For the benefit of industry, public expenditures may be made in such manner as to subsidize the production of some article that should be encouraged Congress may be induced to impose a heavy tariff duty on imports for the purpose of protecting the industry from outside competition The usual economic result from such protective action of the state is an increase in domestic prices, which is, in effect, an indirect tax upon the people for the subsidization of the industry

Finally, while public expenditures may have a great economic effect upon industry, it should not be forgotten that such outlays may also exert a reverse influence upon government itself. The moment government begins to spend to aid industry, labor, and the underprivileged, a partnership with these economic groups is created. In assuming these new functions, government must necessarily effect certain reorganization through the creation of bureaus and agencies.

Summary. It is important to take into consideration the economic effects of public expenditures upon production, consumption, prices, and the whole distributive process In fact, in some instances the economic effects may be the most important purpose of the public expenditure.

As was demonstrated in 1933-39, it is doubtful whether a

government can control the general prosperity of the country, at least to any appreciable extent, by merely adopting a certain policy of public expenditures. Much of such expenditure is of questionable permanent value Its benefit, if any, is largely restricted to a few phases of the economy, such as construction.

Governments, by means of taxation and public borrowing, come into possession of large quantities of purchasing power. This means that, in general, the government and not the individual spends the dollar Under ordinary circumstances, government spending is not an additional sum, but only a channel through which part of the national income is diverted into public purposes The compensatory, multiple, and acceleration effects of government spending, to be considered later, are not yet established facts

A public debt is not necessarily an economic evil It may have been created for some investment purpose On the other hand, if not handled properly, it may start a wave of inflation or deflation, either as it is being created or liquidated

TEXT QUESTIONS

1 Discuss two ways in which the term "expenditures" may be used in public finance
2 What are real government cost payments? "Non-cost" payments?
3 In what way do increasing government expenditures as in a war period affect a country's price level?
4. Discuss the effect of taxation upon the general price level
5 When a tax is imposed on a specific commodity, what is the effect on the price? On whom does the incidence of such a tax fall?
6 Upon whom does a tax on net income or excess profits ultimately fall?
7 What is the interrelation between the general level of prices and expenditures and taxes?
8. Since it is impossible to devise a burdenless system of taxation, how should the tax burden be arranged?
9. Trace the effect of government expenditures on any specific item?
10. Discuss thoroughly the statement "A public debt is inherently an economic evil"
11 Cite a common criticism of the timing of government public works programs
12. Discuss the effects of a public works program in times of depression and extensive unemployment.
13. What were the basic provisions of Bill 2475 proposed by the Senate in 1928 but never passed?

14 Trace the trend of wholesale prices from the period of World War I to the present and compare them with the trend of government expenditures What does the comparison show?
15 What action did the New Deal administration, which came to office in 1933, take to relieve the economic situation?
16. State the four methods by which a state may raise funds and discuss the effects of each.
17 Discuss the use of enforced labor and gratuitous services by government
18. Discuss the use of public expenditures to redistribute wealth among the various economic classes
19 What are the reverse influences that government outlays may have on the government itself?

APPLICATION PROBLEMS

1. Suppose the United States Government proposed to spend $5,000,000 in your city or local community to build a new federal building Could you concretely explain the economic effects of the expenditure among the various business interests? Would such economic effect be limited wholly to your community?
2 A bought a Government Bond for $1,000 in May, 1920 It became due and payable on June 30, 1926 Calculate the advantage to A because of the change in price level.

RESEARCH TOPICS

1. It is proposed that the federal government spend some $4,000,000,000 under the Marshall Plan during the 1950 fiscal year How is this money to be raised by the United States Government? How is it to be spent, and who is to do the spending? What economic effects is such expenditure likely to have both in this country and abroad? Is it likely to have any specific economic effect in your particular community?
2 Select a particular expenditure of the United States Government and show how its effects may be different according to the various methods of raising the funds. Also show how its effects may vary with the difference in the price level or the stage in cycle as indicated by the BLS Wholesale Index Number of Prices

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CHAPTER 6

CONTROL OF PUBLIC EXPENDITURES

Even the most casual inspection of federal, state, and local expenditures reveals that they have not only been increasing at a very rapid rate, especially during the last few years, but that they have been absorbing annually larger portions of the national income. In many instances, federal, state, and local government expenditures have increased faster than the growth of population and the accumulation of wealth. Such fiscal conditions cannot continue indefinitely. A government must necessarily take into consideration the ability of its citizens to pay in arranging its spending program. In the strictest sense of the term, it cannot be said that the state or government ever becomes insolvent or bankrupt, but continued public deficits may result in inflation that may seriously embarrass the whole economy, or may even cause its collapse. This condition especially maintained after World War I and during the great depression of 1932-39

Is it possible that these fiscal conditions of government can be brought under some measure of control? What have all levels of governments done in the last few years to reduce their ordinary and other expenditures, and how effective have these efforts been? May these trends of government expenditures in general or in particular be expected to continue upward in the future as they have in the past? These and other questions will be considered in this chapter.

Causes of Expenditure Increases. The main causes of increase of public expenditures are not difficult to discover A brief consideration of these various causes may provide a basis for the formulation of policies or programs for their control.

In general, public outlays for wars, past, present and future, have been absorbing the greater part of the federal government's annual income, and, to a considerable extent, they have been responsible for the major increases in the total public expense In the last few years about seventy cents out of each dollar spent by the federal government have gone for war purposes, either directly or indirectly. So far as all civilized nations are concerned, the actual cost of waging war alone, from 1793 to 1913, not includ-

ing expenses for defense in times of peace and interest on war debts, has been set at $24,000,000,000, of which Europe itself was responsible for $18,400,000,000. Reduced to an average monthly basis, so that the figures may be a little more comprehensible, the costs of previous wars during the periods of actual fighting in which the United States has been involved are as follows [1]

War of 1812	$ 3,858,839
Mexican War of 1848	10,194,000
Civil War of 1861–65	72,460,854
Spanish-American War of 1898	475,481,500
World War I of 1917–18	1,190,802,700
World War II of 1943–45	5,670,000,000

The answer to this enormous public expenditure for war is international peace and armament reduction To accomplish these ends, it will be necessary to create certain world machinery for international co-operation World War I experience produced the League of Nations and the World Court, both of which, especially the League, failed World War II paved the way for the United Nations and the United Nations Educational Scientific Cultural Organization, but these, too, have not been thus far especially productive of international harmony. Rumors and threats of World War III have sustained and, in many cases, have been the direct cause of substantial increased government expenditures.

Another cause of the increase of public expenditures is the rise of the general level of commodity prices as measured usually by the Bureau of Labor Statistics Wholesale Index Number Governments, like individuals, must pay more for goods and services as the general level of prices advances. On the other hand, governments, unlike individuals and private corporations, are unable to adjust their needs quickly to the changes in the purchasing power of the dollar; hence, government expenditures are either sustained or greatly increased. This is an economic fact because the purchasing power of the dollar becomes less as prices rise, and therefore more money is needed to supply the current wants of government It is partly for these reasons that, during periods of great price rises, governments have attempted to devise programs for economic controls.

[1] *The Chicago Tribune*, June 21, 1942 Quoted by permission The average monthly expenditure for World War II was calculated by the authors based upon the budgeted expenditures for the fiscal years during actual fighting

The general tendency during a period of advancing prices is for expenditures and appropriations to increase faster than the various taxable bases The consequence is that the rates of existing taxes must be increased, or the tax bases re-evaluated, or new sources of income brought into use to supply the additional revenue needs of government On the other hand, a period of falling prices rarely, if ever, is accompanied, at least immediately, by a decrease of government expenditures. In fact, as during the period from 1933 to 1939, a fall in the general level of commodity prices may be the very cause of an increase in public expenditures because the government may find it necessary to allocate more funds to such purposes as relief, unemployment benefits, public works, and other recovery projects

Furthermore, it takes a major operation under the determination of a bold executive to secure substantial reduction in the public outlays In other words, it seems to be an established fact that when once a function gets on the budgeted payroll of a government, political pressure and the inertia of custom make it most difficult if not impossible for it ever to be removed or even reduced. It is therefore always much easier to increase public expenditures than it is to reduce or to remove them

When federal expenditures were rising at such a rapid rate during the period from 1933 to 1939, charges of wasteful spending were made against the central administration Numerous public demands were made that both taxes and expenditures be reduced immediately, that the budget be balanced, and that plans be laid to liquidate or to pay the public debt It was charged that the fiscal policy was drawing much needed capital away from production, that it was wasteful, and that it was leading the country into another period of inflation similar to that of 1914 to 1920 and later years. But, when attention was focused on the problem of expenditure retrenchment of the federal government, it was found that little or nothing could be done. The possible reduction of expenditures for the legislative, executive, and judiciary establishments, without impairing their efficiency, was relatively insignificant. It has already been shown that their total expenditures are only a relatively small percentage of the entire budget It then became necessary to choose between large public expenditure and curtailing the recovery, relief and rehabilitation programs Everyone realized that the country was passing through a

most difficult period, and it was hoped that the federal government was the agency that could lead the way. For these reasons the public either condoned or acquiesced in the mounting expenditures of the federal government during the period of recovery from 1932 to 1939. Late in 1939, the entire fiscal program of the federal government was put on a war basis, which explains why the national expenditure began to mount so rapidly at that time.

Territorial expansion has also been an important factor in the increase of public expenditures, because any new foreign acquisitions require protection, school and police systems, development of the natural resources, and, sometimes, colonization. As an investment, it is very doubtful if any country has ever derived substantial return from its possessions that were non-contiguous to the mainland.

The growth and density of population has always had a marked effect upon the nature of the increase of government expenditures. As the density of population becomes greater, the need for government regulation increases, resulting, as has been explained, in a condition of increasing per capita unit cost. Provision must be made for health and sanitation, traffic must be supervised and directed, and expense must be incurred for numerous other social and industrial activities as population becomes denser New bureaus, commissions, and departments must be organized to perform these important functions, and these entail considerable outlay of public funds

Capital expenditures for internal development from the road-building days of the Romans to the present have always been a major cause of great public outlays The federal government has aided in the building or has actually built canals, railroads, highways, public buildings, houses, parks and playgrounds, and dams for power and irrigation, and has engaged intensively in reforestation and in conservation of the natural resources. States, cities and other local units have likewise made similar heavy capital investments The English government, mainly by issuing exchequer bonds and by exchange of stocks, has nationalized the telephone and telegraph lines, the coal mines, certain public utilities and power supply lines, and the Bank of England.

Just how large is the dollar value of capital investment by the federal, state and local governments is very difficult to ascertain or even to estimate; but the sum is very large The investment is not only increasing yearly at a very rapid rate, but the mainte-

nance and replacement expenses are very large. It will be explained in subsequent chapters how the federal budget has lately been expanded to include capital expenditures.

The influence of administrative inefficiency has always tended to cause the expenses of government to rise. Legislative bodies have been notoriously lax in their methods of voting appropriations. "Logrolling" and "pork barrel" tactics have resulted in much useless and wasteful expenditures. Appropriations and expenditures have frequently been approved by legislative bodies without full or adequate knowledge of the purposes for which they were made. The introduction of the budgetary system has had a salutary effect upon these practices. Since the people have become tax- and expenditure-conscious, many of these loose and wasteful methods of appropriation by the legislative bodies may be eliminated, or at least curtailed, in the future.

In the past few years, especially since public expenditures have reached such large proportions, considerable effort has been made to improve the administrative efficiency of all levels of government. Many cities have adopted the manager plan In some cases, substantial savings in public expenditures have been made. A few states, notably Illinois and Maryland, have materially revised their government organization. The federal government has made some attempts, since the great depression of 1932–39, to eliminate or combine some of the numerous bureaus, commissions, and agencies, culminating in the reorganization acts of 1945, when Congress itself was to be streamlined along more efficient lines.[2]

War Price Control and Federal Expenditures. It is a well-known fact that any price change inflicts hardships upon certain economic groups. Price changes likewise affect the fiscal activities of the government because of changes in the purchasing power of the dollar. Therefore, it is not surprising that governments have made great efforts, especially during emergency periods, to stabilize prices and to control other phases of the economy Such measures were adopted in the general public interest during World War II and in behalf of the government's own fiscal policy.

With full knowledge of the general behavior and effects of prices during a war period, chiefly during World War I, the federal government turned its attention to initiating a control

[2] *The Hoover Commission Report*. New York McGraw-Hill Book Co, Inc., 1949.

program even before the United States entered World War II Some hundred or more federal agencies, chief of which was the Office of Price Administration, were organized to contend with the problems of controlling the economy during the war, and to devise plans of reconstruction after the conflict came to a close One of these plans was contained in the Baruch and Hancock Report on "War and Post-War Adjustment Policies."

To ward off a spiral of prices and to lead the way toward economic control, President Roosevelt presented to Congress a seven-point program early in 1942 Among other measures, he recommended that a legislative plan or program be adopted whereby a large part of the excess purchasing power of consumers could be siphoned off by heavier taxation At that time high wages and profits were responsible for the accumulation of purchasing power greatly in excess of available goods and services for consumption Purchases on credit were also to be restricted under Regulation W, administered mainly by the various Federal Reserve Banks, and the payment of existing debts was to be encouraged To "soak" up the surplus purchasing power as much as possible and to aid in winning the war, everyone was urged to buy bonds direct from the federal government. Perhaps the most important part of the President's recommendations were the price-ceiling and rationing programs that were put into effect, first under the Office of Producers and Consumers Supply Agency by executive decree Then later in 1942, the Office of Price Administration was organized under an Act of Congress to establish ceilings on certain retail and wholesale prices, including wages, certain services, and rentals. The rationing of virtually all essential commodities was also put into effect. It will be explained in a later chapter how general prices during World War II remained fairly stable, or in some cases actually fell, whereas in World War I they rose enormously during the period of actual fighting.

Government Spending Programs and Inflation. During World War I, the federal government arranged to borrow principally through the banks. In fact, the inauguration of the Federal Reserve System was hastened in 1913-14 by President Wilson in order to expedite such loans. After a loan was authorized by Congress, the Secretary of the Treasury notified the Federal Reserve Board (later called the Board of Governors) of the sum needed.

The Board then allocated the loan among the various Federal Reserve Banks These, in turn, called upon their member banks either to subscribe to the loan themselves or to sell the securities to their depositors, investment houses, corporations, and trust and insurance companies

On the surface, this plan seemed to be a simple and most effective system of government borrowing. But the plan was not sound economically because of its great tendency to encourage inflation. The government securities were made either negotiable to bearer or assignable to an assignee and could therefore easily be pledged as collateral, usually to a bank on a loan. This made them ideally suited for expanding the consumer purchasing power by pyramiding credit

During World War II, the federal government greatly changed its fiscal policy by attempting to borrow more from individuals, corporations, and fiduciary companies and less from banks. Provisions were made for the issue of savings bonds especially designed for these purposes, designated as Series D, E, F, and G Series D and E were intended primarily for the small investor, to be bought out of his current income. They were not transferable by any legal process. In such instance, investors dealt only with the federal government. The investor was also limited in the amounts of these bonds which he could purchase in one year

The Series F and G bonds were intended primarily for larger investors. Series F bonds were sold only on a discount basis of 74 per cent, and were not transferable. The Series G bonds bore interest at 2½ per cent and were negotiable, hence transferable at the will of the owner [3]

In order to provide a means for the systematic accumulation of small sums for the purchase of defense savings bonds, the Postmaster General arranged to sell defense savings stamps through all the post offices. These too were not transferable, and they did not yield an interest return

These methods of direct borrowing served two essential purposes. First, they had a material retarding effect on inflation Second, they effected a wide distribution of the holding of government securities among the people

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[3] See *Annual Report of the Secretary of the Treasury for Fiscal Year Ended June 30, 1941*, pp. 21 ff.

One further thought might be added in regard to fiscal activities of the government as they relate to inflation. Higher prices always accompany a condition of economic inflation During such a period, business is good with a resulting increase in the national net income. Many tax bases, such as excess profits and capital gains, depend for their existence upon a condition of economic inflation. A condition of inflation may therefore increase the sum upon which the government may levy a tax or borrow. In this manner, inflation may be one method of aiding in the financing of a war, as it is one method of discharging an internal debt. But this is hardly a valid argument for inflation.

The plan of soaking up the current income of the people by taxation, to curb inflation, is of doubtful validity because additional purchasing power is so easily created by pyramiding credit through bank loans. There are other and more effective means to this end

During an emergency, it is not advisable, or even good fiscal policy, to encourage the investor to put all his money in government bonds. A substantial part should be invested in private industry, which is necessary to war production and to individual consumption. Private industry was the source of virtually all the production of war supplies that the federal government used. To a large extent, government funds, derived through taxation or borrowing, are used to buy war supplies and are not invested directly in production equipment. This latter function is one that must be assumed largely by the private investor.

Partly because of the unequal distribution of wealth and income, the costs of any emergency cannot or should not be met entirely out of taxation. The government must necessarily resort to borrowing, or deficit financing If this borrowing is entirely within the country, it is doubtful whether the burden is shifted onto future generations. This matter of tax shifting will be discussed more fully in a later chapter, but it should be mentioned here.

When an emergency has passed, and the necessity for further borrowing has ceased, provisions must then be made for liquidating the public debt. Sooner or later, general, prices fall which in effect is tantamount to an increase in the purchasing power of the borrowed dollar as the government redeems its bonds and other obligations Usually the government borrowed the dollar during a

period of rising prices when its purchasing power was low. It later repays its debts when prices are low and the purchasing power of the dollar is high. The lender stands to gain in both transactions. During high prices he finds it easier to get the dollar to lend to the government, while during low prices, when it is returned to him, he comes into possession of added purchasing power. Perhaps this difference should also be considered as part of the profit to the investor along with the rate per cent of interest which he is paid on the loan. This whole matter was raised by the British government after World War I when it came time for England to pay its debts to the United States. The contention was that the loan was received when prices were high and the purchasing power of the pound was low, and was to be repaid when prices were low and the purchasing power of the dollar was high. The British government contended that equal purchasing power should be repaid and not an equal number of dollars borrowed But the loan later went into default and no part of the principal and interest has been paid. This ended a nice academic controversy between the British and the United States governments.

Expenditure Controls by State and Local Governments. Many states have done much to improve the efficiency of their governments. Economies have been made in certain departments, but, in spite of these efforts, state expenditures have continued to increase. A few states, like Illinois, have reorganized their governments on a more efficient basis. They have adopted plans for the consolidation of all activities into fewer departments, each supervised by one head appointed by the governor and responsible to him.

Indiana adopted a plan for the control of public expenditures that has been productive of good results. The Indiana law provides that any ten taxpayers in a district may appeal from a proposed budget or bond issue, as prepared by local officials, to the State Tax Board. This Board has power to approve, to reject, or to reduce the amount of any budgetary item The action of the State Board in reviewing local budget petitions and in ordering tax decreases has resulted in considerable saving to the local units. In 1929, for example, the State Tax Board of Indiana reduced the budgets of some 83 local districts by over five million dollars.

The following table shows the per cent of total reductions ordered by the Indiana State Board of Tax Commissioners [4]

TAX REDUCTIONS ORDERED BY THE INDIANA BOARD OF TAX COMMISSIONERS

Per cent of Reduction	Number of Districts in Class	Amount of Reduction	Per cent of Number in Class
No reduction	308		36 97
0 - 5%	129	$ 2,022,316 12	15 49
5 1 - 10%	118	3,970,640 51	14 17
10.1 - 15%	79	3,523,989 54	9 48
15 1 - 20%	64	2,825,141 19	7 68
20 1 - 25%	43	842,823 36	5 16
25 1 - 50%	72	4,974,112 57	8 64
Over 50%	20	462,774.93	2 41
	833	$18,621,798 22	100 00

These data show that reductions up to 10 per cent were made in 247 districts by the State Tax Board, involving a saving of almost six millions of dollars, or over 55 per cent in the total number of cases that have been submitted for review. The balance, or 90 per cent of the reductions, involved 278 districts. They have effected a total savings of over twelve millions of dollars to the taxpayers of the state.

In New Mexico there is complete centralization of state control of all local budgets and tax levies. By this plan, the local tax units are required to submit detailed budgets to the State Tax Commission, which has "power and is charged with the duty to amend, revise, correct, and approve the same." Such authority virtually makes the State part of the local budget-making process by its reviewing and revising all items of expenditure either upward or downward On the whole, this form of state control has been quite successful. In the last few years, it has permitted rather large increases in outlays for such functions as education and health. At the same time, it has held stationary the usual funds for administration, courts, roads, and other public institutions.

Perhaps the most thorough-going examination of any local budget by the New Mexico Tax Commission is for the 900 school

[4] Wylie Kilpatrick, *Tax Control* Trenton: New Jersey Municipalities, December, 1931; January, 1932, p. 26

districts of that state. A law was passed in the state that created county school budget commissions. An auditor of the educational budget is named by the Governor of the State as a member of the county school budget commission He is charged with the continuous task of analyzing school costs and of making personal tours each year of all the counties The State Tax Commission usually takes this auditor's report as a final statement of the financial affairs of the local school district.

By exercising a careful control over the selection of all sources of income, assessments, and levies, the State Tax Commission of New Mexico has also done much to stabilize the tax burden The state law has been amended to allow the tax commission to regulate local bond issues and indebtedness.

Oregon has approached the problem of control from a slightly different angle. Here control is exercised through the county, which has been made the unit of administration Before the certification of any levies, all annual local budgets must be submitted to the County Tax Supervising Commission for thorough analysis, review, hearings, and revision The Commission's objective is not only to reduce taxes, but to go behind formal budget making to ascertain what administrative methods and systems are conducive to efficient handling of public funds and functions

This Oregon plan of control has been markedly successful The savings in taxes have amply justified the work of the commission. Tax reductions that have been ordered by the commission are given in the following table·

REDUCTIONS ORDERED BY THE MULTNOMAH COUNTY TAX CONSERVATION COMMITTEE, 1922-31

Year	Amount of Reduction	Per cent of Local Budget Reduced by Order	Annual Per cent of Increase of Tax Levies
1922	$608,409 36	5 89	
1923	536,670 06	4 74	10 95
1924	668,643 30	6 25	7 09
1925	836,745 37	7 42	4 27
1926	267,919 28	2 23	12 53
1927	213,795 46	1 57	13 72
1928	169,740 91	1 16	8 11
1929	306,959 18	2 04	2 23
1930	259,427 22	1 70	1 46
1931	194,475 46	1 24	3 52

These data show that the reduction of local budgets was most rapid during the first four years of its operation. As the control was developed and as earlier recommendations were put into practice, fewer changes became necessary. During later years, the percentages of tax increases showed a decided decrease. This indicated that many economies decreed by the commission were adopted by the tax districts themselves before they submitted their budgets for consideration.

By adopting plans of reorganization, effecting economies, and paring the budget, the federal government has followed the states and has made special effort to reduce its expenditures. In 1939, Congress had under consideration a drastic plan for reorganization of all departments and for the elimination of certain commissions and bureaus. But not much in the way of savings was expected by this means The expenditures for the actual operations of government are not great when compared with the social functions. While reorganization of government with economies as a goal is highly desirable, the only way to clip millions of dollars from the federal budget has been to reduce expenditures for relief, unemployment, and other social functions. The choice therefore lies between continuing these social expenditures on a large scale, with a large budget, and reducing outlays for these new governmental functions. Congress and the President, however, have attempted to abolish or to consolidate certain departments, offices, boards, commissions, and agencies, and to fix the line of responsibility for those in charge, to grant longer tenure to officeholders, and to abolish boards constituted for purely administrative purposes.

The subject of distribution of expenditures and of revenues between the federal, state and local governments will be discussed more thoroughly in another chapter. As a measure of fiscal economy, the importance of this subject can scarcely be over-emphasized If properly and intelligently done, such distribution may form the basis for great savings in public expenditures. Outlays should be allocated to that unit of government which can make them most efficiently. The federal and state governments have made some headway in this direction during the past few years, although the exigencies of the times have prevented any real scientific solution of this important problem. Each has been literally grabbing for revenue from whatever source it is possible

to get it, often disregarding the evils of multiple and double taxation.

In many cases, the further expansion and even reduction of public expenditure has received the serious attention of the taxpayers themselves. The taxpayer has become so expenditure-conscious that any act of the government which is likely to involve outlay of funds will command his attention. In addition, certain limitations, either by legislative enactment or by constitutional provision, have been imposed. The usual practice is to fix a maximum tax rate by law, although this method of expenditure control has not been very successful because the burden can easily be shifted to debt or to assessment. If more money is needed, it is generally quite easy for officials to float some kind of public security or to increase the property valuation. In either case, legislative or constitutional control of public expenditures has not been completely successful. In some cases, with more or less doubtful results, taxpayers have formed associations to remonstrate against further tax and expenditure increases.

Perhaps one of the most effective methods of expenditure control has been the introduction of the budget system. Wherever the budget is used, government officials are required to make in advance a careful estimate of all expenditures, which they cannot exceed. At the conclusion of the fiscal year, they must account for all funds that have come under their control, subject to post-audit examinations. The budget system has been responsible for placing some limitations upon the expansion of public expenditures. It has contributed to a more efficient use of public funds. The budget in all its phases will be discussed in detail in later chapters.

Tendency of Control. The problem of control of public expenditures seems to be partly at least a matter of distribution of functions, of resources, and of responsibilities among the units of government that are in a position to administer those outlays most efficiently. Because of the constant tendency toward centralization of government, control over public expenditures has followed a similar line of development. Many recent problems, such as those pertaining to agriculture, unemployment, old age, relief, health and industrial conditions, have assumed such national importance as to require administration by the federal government. The states and local units cannot handle these

problems unaided. Accordingly, Congress has authorized the collecting of revenue from its wider sources of income and has made allocations to state and local units, but always under certain restrictions as to its use.

Just as the federal government exercises considerable control over the expenditures of the states, so the latter supervise, in most cases very rigidly, the fiscal affairs of the local units In the past few years, there has been a marked development of state control over local tax administration, public utilities, labor organizations and employer-employee relations, financial institutions of all kinds, public expenditures for health, sanitation, defectives, delinquents, dependents, and highways The tendency to centralization of control by the states over the public expenditures of the local units has seemingly gone in two directions· first, actual assumption of certain functions that were formerly performed by the county, township, or municipality; and second, rigid supervision over all their fiscal activities The states not only supervise local tax levies and budgets, but they also exercise some control over the amounts and purposes for which the funds are spent

As social and industrial problems assume a more national character, it is but natural that centralization of government and control shall tend to concentrate into the higher units Since no clear demarcation can be made between the duties that should be performed by one form of government and the other, a completely satisfactory division of expenditures is not possible About as close as it is possible to get to a true distribution of expenditures among the various units of government, is when such distribution is made according to the public interest and efficiency, the available natural resources, and upon the basis of responsibility for certain pressing public needs The more general and urgent the public need, the more likely that it should be assumed by either the state or by the federal government The command over great natural resources as a means of income may put the responsibility ultimately upon the federal government, as for instance, in the construction of great dam and reclamation projects In many cases, the state or local units either cannot, or will not, provide certain much needed public improvements. These can be supplied only by joint undertaking with the federal government, or by it alone. Because of the great weight of certain public expenditures, such as dam sites and irrigation projects, states have, by

the consent of Congress, entered into compacts to effect a better division of the burdens of such expenditures.

Obstacles to Control Program The need for a control program becomes obvious when it is realized that public expenditures have been increasing more rapidly than the total wealth of the country and faster than the growth of population In many instances, the total assessed valuation of property for taxation purposes has increased at a much slower rate than the amounts taken in taxation This is especially true of general property taxes as used by most states and by all local and municipal units.

The general idea of control of public expenditures is relatively new It presents a real challenge to tax officials, but it is an innovation that should be incorporated in any financial program of government In approaching this subject, the idea should be dismissed that expenditure control necessarily means less governmental service It may not be possible to make substantial reductions in the expenditures for the legislative, executive, and judiciary, and maintain their efficiency It may not be feasible to curtail very much the amounts spent for the social functions It may be more difficult or less feasible to increase the tax rates or valuation But a government should be ever alert for wasteful and unnecessary expenditures

In the main, the success of expenditure control rests on getting the same flow of services for less money by eliminating or reducing certain extravagances of government In other words, reduction of governmental costs by expenditure control should be achieved primarily through administrative efficiency

One of the greatest obstacles to the inauguration of a program of control is the confused mass of local governments in the United States There are over 155,000 taxing districts in the United States, divided as follows.[5]

The nation	1
The states	48
Counties	3,050
Incorporated places	16,220
Towns and townships	18,919
School districts	108,579
Other units	8,299
Total	155,116

[5] U S Census Bureau, *Governmental Finances in the United States* (Washington, D. C. U S Printing Office, 1942), p 115

Counties, townships, school districts, and municipalities are creatures of the state. All these units have the power, as conferred by statute or constitutional provision, to make budgets, to levy and collect taxes, and to make expenditures. Furthermore, special tax districts may be created for particular purposes, such as drainage. It has been estimated that these raise the total in the United States to 175,000 taxing units Such decentralization of government does not lend itself to tax and expenditure control. Duplication of levies and expenditures is frequent, and the administrative efficiency of such districts often leaves much to be desired. Moreover, it is a well-known fact that many tax bases can be used most effectively only by the larger units of government. Also it is difficult to introduce a program of control where the units are both numerous and small. Frequently, therefore, several such districts are combined into one unit solely for administrative purposes.

The second difficulty often experienced in setting up expenditure control in local units is the absence of concentrated financial responsibility Each unit, whether county, township, municipality, school or special district, has authority to levy taxes, to plan expenditures, and to borrow money Since there are hundreds of these units, it is difficult, if not impossible, to devise an adequate system for checking on all these financial programs. According to current theory, the taxpayer does make the check; but in fact, he has neither the time nor the training to check on such a multiplicity of units. A commission of highly trained experts devoting all its time to a study of the local units would be required to manage this problem. The New Mexico plan, already discussed, very closely approaches this method of supervision.

A third difficulty is the faulty allocation of functions. The present distribution of functions among the various governments is not founded upon a rational basis, but upon accident of growth and possibly upon imagined practicability. There is no unit of government in the United States that is not performing one or more functions that could be more efficiently done by another.

In the past, notorious indifference was shown to the quality of the personnel in charge of the affairs of government and to the efficiency of administration. Anyone who had sufficient political influence to be elected to office was put in charge of important affairs of government, with the result that in one way or another

much of taxpayers' money was wasted. With an incompetent personnel there was little opportunity for the introduction of a program of expenditure control.

Considerable attention is being given to the improvement of government personnel, either by a better system of selecting employees or by requiring them to train for public service. The United States Civil Service Commission has had considerable influence in bringing into federal offices a highly trained and more efficient group of employees. It is difficult to over-estimate the saving in government outlays and the greater efficiency in administration that this highly trained personnel has injected into the public service.

Special schools are being organized to offer instruction to those who wish to train especially for government service. Because of the prospective saving to the government, such instruction might very well be provided at public expense. This school idea has been extended to include property assessors, policemen, firemen, and teachers. Many states have established normal schools, colleges, and universities for the purpose of training those who wish to teach in the public schools. In many instances, boards of education refuse to hire or to retain teachers who do not possess the specialized training that especially equips them for their work.

The last obstacle to the inauguration of an expense control program to be mentioned is a belligerent attitude on the part of some people in regard to home rule. The extreme advocates of home rule insist upon keeping within local control all the functions ever exercised or acquired, whether by accident or tradition, despite the logic of a change. This point of view is a remnant of local sovereignty and of the insistence upon the right of self-government. Under such circumstances, there is little possibility of inaugurating reforms in government and of securing the benefits of reorganization.

Tax and Debt Limitations. The concept of debt limitation, mentioned earlier, needs further discussion. Because of their respective sovereign powers, the federal and state governments have no absolute debt or tax limitations. The limitation on the amounts that the Executive may borrow from time to time, through the Secretary of the Treasury, is fixed by Congress. During World War II, the upper limit was fixed at three hundred billions, later reduced to two hundred and seventy-five billions.

States do have debt and tax limitations, but these have been self-imposed by statute or constitution. Because of a constitutional prohibition, the federal government cannot impose export duties It can levy direct and indirect taxes only according to a certain prescribed manner, but there is no limitation as to the amounts that may be taken in any case The constitutional limitations on the right of the states to tax are also very few No state may levy export or import duties beyond what is needed to pay costs of inspections Both for the federal government and for the states, the constitutional right to borrow seems to be unlimited, except by the proviso that the borrowing must be done for public purposes

Since all local governments are subunits of the state, the latter has, by statute, granted to counties, townships, cities, schools, and special districts, the right to levy certain prescribed taxes and to borrow within certain limits; and it has generally reserved the power to supervise and control both their expenditures and their fiscal activities Therefore, a study of tax and debt limitations as methods of public control is almost entirely limited to those imposed by the various states on their respective local units

As a rule, the states impose tax limitations upon their subordinate governments The most common method is by the restriction of tax levies to a specified millage rate of assessed valuation of property in a district, or by a provision that the amount raised for any one year shall not exceed by more than a fixed percentage that collected in the previous fiscal period As will be noted later, these restrictions have not been notably effective because they are too easily evaded by tax officials

Most states, notably Oregon, Indiana, and Ohio, have placed limits, either by statute or by constitutional provision, upon the authority of local governments to incur debt. These limitations vary according to the number and importance of the functions. The state may exercise both direct administrative supervision and statutory control over the power of the local unit to incur local indebtedness. Under this form of control, the most common arrangement is a specific percentage limit based on the assessed valuation of taxable property in the district. The percentage limits may vary from 5 to 10 per cent, with frequent exemptions relating to special assessments and debts that have been incurred for emergency cases. The state may also exercise control over such

other fiscal matters of the local government as marketing of securities, the creation and administration of sinking funds, the life of bonds, and the payment of interest and principal on outstanding indebtedness.

The extent of this supervisory power varies from state to state. It usually includes, however, a provision that the state shall gather, analyze, and publish statistical information on local finance This service is of importance because it tends to familiarize the taxpayers with local tax rates, bonded debt, and budget items. The state may also make periodic audits of accounts at the expense of the local government, prescribe modern accounting systems for local governments and lend assistance in their installation, prepare appropriate budget forms and procedures and aid in their installation, and conduct efficiency studies upon request of the local governments

In Colorado, for example, the plan of tax limitation provides that the amount to be raised for any one year shall not exceed by more than 5 per cent the amount collected for the preceding fiscal period. If this maximum is not sufficient to meet the demands of governments, the local official may petition the state tax commission for an increase If the commission refuses, the question may be submitted to the voters of the taxing district Experience has shown that, when the commission refuses a necessary increase and the matter is referred to the voters, it nearly always carries by the necessary plurality.

The Indiana plan for tax and debt limitation is almost wholly contained in an act of August 8, 1932. This act provides for the creation in each county of a board of tax adjustment. The law provides that this board shall hold meetings each year and shall have the power to revise, change, and reduce the tax levy of any district within its jurisdiction. The law fixes the maximum tax levy for any district at $1 50 on each $100 of assessed property, except when the board shall deem it advisable to allow a higher rate In such case, any ten taxpayers of the district may appeal the case to the state tax commission whose findings are final The right of appeal is therefore granted, under the act of August 8, 1932, when the local county board of adjustment fixes a total rate in excess of that which is fixed by the law

The law of New Mexico places a limit, for state purposes, of 5½ mills on the dollar assessed valuation of all taxable property,

and a limit of 5 mills for county purposes, exclusive of schools and highways. A 2-mill tax limit is placed on levies for the construction and maintenance of state highways. The maximum rate of tax for all general county school purposes is 18 mills on the dollar; and for city, town, or village, and special school district, the maximum is 5 mills. No county, city, town, or village in New Mexico may, in any one year, levy a tax that will produce revenue in an amount in excess of 5 per cent more than that raised in the preceding fiscal period, except with the approval of the state tax commission. Under the New Mexico law, it is illegal for any county, city, town, or village to become indebted to an amount in the aggregate, including existing indebtedness, exceeding 4 per cent of the assessed value of taxable property within the district. All bonds must be approved by the state tax commission as to time of issuance, and form and rate of interest that they may carry.

Ohio has had a variety of experiences with tax and debt limitation, and now has one of the most comprehensive sets of laws on this matter to be found anywhere The first enactment of the state of Ohio was the so-called "Smith One Per Cent Law." In this law, the legislature attempted to impose a limitation on the taxes that could be raised by all the districts of the state. The history of the Smith law shows that, instead of decreasing taxes, it actually increased them. Its main shortcoming was that it failed to provide bond limitations along with the tax limits

In 1921, the "Griswald Law" was passed which provided definite limits on the amount of bonds that could be issued. In 1925, the legislature passed the "Krueger Act," which required that all bond issues be accompanied by an extra levy of taxes outside the present 15-mill limitation to pay principal and interest. The present legislation was passed in 1927 and is very comprehensive. The present law in Ohio also provides that no rate in excess of 15 mills shall be levied on any taxable property within the state. In the event that it becomes necessary to exceed this limit, it can be done only by the consent of the qualified voters of the district.

The state of Ohio also has a comprehensive law on debt limitation. Without a referendum, the net indebtedness of any county cannot exceed 1 per cent of the first $100,000,000, or part thereof, of the tax list, plus .5 of 1 per cent on all property in excess of the above sum. The total net indebtedness created or

incurred by any county shall never exceed 3 per cent of the first $100,000,000, or part thereof, plus 1.5 per cent of all property in excess of above total sum. The net indebtedness that is created or incurred by a municipal corporation in Ohio, cannot exceed 1 per cent of all assessed property within its jurisdiction without a referendum. The net indebtedness by any municipal corporation shall never exceed 5 per cent of the total assessed value of all taxable property. The law provides also that no school district can, without a vote of the people, incur net indebtedness in excess of .1 per cent of the total value of all property within its jurisdiction as assessed for taxation. In no case shall the net indebtedness of any school district exceed 6 per cent of its total assessed property. The law further provides that, unless the state tax commission first approves, bonds shall not be submitted to popular vote in an amount that will make the net indebtedness after the issue exceed 4 per cent of the assessed value of the property within the district.

Further, the Ohio law provides for a county budget commission that is empowered to examine the respective county budgets and ascertain if the following levies have been properly authorized:

(1) All levies outside the 15-mill limitation
(2) All levies for debt charges that are not included in the 15-mill tax
(3) Tax levies for the equalization fund of the county schools
(4) The minimum board of education levy for current expenses

The Ohio State Tax Commission is the body of last resort for all local fiscal problems, including county budgets. It has power to modify any action of local commissions with reference to the budget, including the estimate of revenue, and the fixing of rates. In no case is the commission authorized to place levies outside the 15-mill limit or to reduce any revenue below the minimum that has been fixed by law.

In conclusion, it may be said that increasing burdens of taxation and continued mounting of public expense make imperative the quest for means of economy. As yet no one has hit upon a single plan or remedy. In case of local units, uniformity of accounting and budgetary measured are indispensable if the state is to institute a system of control. Moreover, a successful plan must include both tax and debt limitations. Experience has shown that it is fruitless to attempt to control one without imposing limitations on the other.

In regard to reviewing boards, there are at present two general plans One prescribes a review by a central state authority; the other by a local county commission. As yet, no one has attempted to combine these two. This experiment might be worth trying. In any case, a successful reduction of present burdens must be accomplished largely by raising the general level of efficiency of government administration

Summary. The main causes of increase in public expenditures are social functions of government and catastrophes, such as wars and depressions. General price rises also cause expenditure increases because of the decrease in purchasing power of the dollar and also because of the abundance of available revenue When a government assumes an additional expense, such as for a social function, it is very difficult later to reduce or to eliminate it. Because of the close association of price increases and war, the federal government inaugurated a system of economic controls as soon as World War II began, even before the United States became involved as a belligerent country. The extent to which these economic controls prevented general prices from rising was an important factor in the saving in government expenditures. During World War I, the federal government borrowed largely through the banks That method proved inflationary. In World War II, to avoid that inflationary possibility, the federal government attempted to borrow a larger proportion of its needs directly from the people. Several different kinds of securities were issued, notably the war bond series, to serve this purpose.

Many states and local units have also instituted certain measures for the control of expenditures. These measures chiefly take the form of debt and tax limitation, both by statute and constitutional provisions All these units of government have instituted budgetary systems, which are proving to be very effective methods of expenditure control

Expenditure control is not without its obstacles. One difficulty is the problem of effecting a proper distribution of functions and of sources of revenue among the various units of government The inertia of local self-government also plays its part. The local unit of government is very loath to surrender any of its functions or sources of income.

TEXT QUESTIONS

1. What are the main causes of increase of public expenditures?
2. Why may a fall in the general level of commodity prices cause an increase in public expenditures?
3. Explain the statement, "It is easier to increase public expenditures than it is to reduce or remove them."
4. What was the first federal office organized to carry out the price ceiling and rationing program in World War II? How was it created?
5. How was federal borrowing principally carried on in World War I?
6. Explain the purpose of Series D and E bonds? Of Series F and G.
7. What were the two essential purposes of these methods of direct borrowing?
8. How may inflation aid in financing a war?
9. What was the argument between England and the United States regarding payment of the British debt after World War I?
10. Explain the Indiana plan for the control of public expenditures.
11. What is the objective of the County Tax Supervising Commission in Oregon?
12. What is one of the most effective methods of expenditure control? Why?
13. How many taxing districts are there in the United States including special tax districts?
14. What are some difficulties encountered in setting up expenditure control?
15. What is the absolute debt or tax limitation of the federal government? Of the state governments?
16. Can the federal government levy export duties? Why?
17. How do states impose tax limitations upon their subordinate governments?
18. What is the Colorado plan for tax limitation?
19. What was the "Smith One Per Cent Law"?
20. Explain the work of the Ohio State Tax Commission
21. What are the two general plans in regard to reviewing boards in use today?

APPLICATION PROBLEMS

1. Do you believe that a better control could be had over public expenditures by providing a better distribution of income between borrowing and taxation during a period of deficit financing? In what proportion should this distribution be made?
2. In preceding chapters we have shown the total annual expenditures of the United States Government during the Great Depres-

sion cycle from 1929 to 1939 and the BLS Wholesale Index Numbers of Prices for that period. Plot these two sets of data on the same sheet of graph paper. Can you explain the behavior of the expense curve in relation to the price curve? Do you believe that this interrelationship constitutes a cause of government expenditures?

RESEARCH TOPICS

1. Visit your local banker or investment broker and secure data as to the difference between the methods of borrowing by the federal government during World War I and World War II. Do you believe that these two methods had different effects on expenditures and hence on control?
2. Make a brief study of the federal expenditures on the development and control of the Philippines, Hawaii, and Alaska. Can you draw any conclusions in regard to such expenditures and the benefits received?
3. Consult the federal and your latest state budgets and specifically consider the reduction of any proposed expenditures. You must bear in mind at all times that the efficiency of the particular agency must not be unduly impaired.

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PART II

FISCAL ADMINISTRATION

CHAPTER 7

INTERGOVERNMENT FISCAL RELATIONS: GENERAL ASPECTS

During the past few years, the fiscal relations among the federal, state, and local governments in the United States have become exceedingly complex It has been only recently that such fiscal relations among these three grades of governments as borrowing and lending, allocation of public funds, and distribution of expenditures and sources of income, have become so important, largely because of heavy public outlays At present, each of these units of government imposes many taxes upon the same sources of income, and, from time to time, each has given considerable financial assistance to the other These fiscal conditions arise, in part at least, out of certain inherent characteristics of the three great divisions or levels of government.

As was explained in another chapter, there is a division of political power between the federal and state governments that compels a distribution of functions, expenditures, and sources of revenue There is a rather definite sphere of influence within which each of these two major units of government operates.

The purpose of this chapter is to present the general principles of these interfiscal relations, and to suggest a better distribution of government functions, expenditures, and sources of revenue so as to eliminate or mitigate friction among these units A better understanding of the nature and scope of these interfiscal relations may aid these units of government in achieving greater efficiency of operation. These matters are therefore of great importance in the problems of modern public finance

Distribution of Expenditures. Because of the political distribution of functions among federal, state, and local governments, each unit must necessarily assume certain expenditures that are related to its own peculiar responsibility If the functions involve the general welfare of the country as a whole, such as the health of the people or protection from outside invasion, the financial burden should fall mainly or wholly on the central government Also, the burden may be too great for the local units to handle On the other hand, if the expenditure is limited in character and

affects only small units, such as schools, road building, internal improvements, and the construction and operation of public utilities, it should be assumed primarily by the local government.

A further distinction might be drawn as to the extent of technical supervision and adaptation to local conditions that the service may require. So widely diversified are economic conditions in this country that one section might require an expenditure for a purpose that does not exist in another part, and, unless it can be shown to affect the general welfare, it should be supported from local revenue only. No hard and fast distinction can be drawn between public expenditures that should be met only by the central government, and those that should fall on the local units; certainly, because of their constantly changing character, no permanent categorical list may be compiled for each

Distribution of Sources of Income. The necessity of distributing functions and expenditures among the federal, state, and local governments constitutes the basis for the allocation of revenue among these units. If a unit of government must assume public expenditures, it must also be provided with sources of income. The questions then arise: Are all forms of taxation and sources of income equally available to the federal, state, and local governments? Is any particular unit of government able to use all forms of taxation, or other sources of income, as efficiently and as successfully as some other unit might use them? These two questions must be answered in the negative.

The main source of income, at least to the majority of states and to all local governments, is the general property tax.[1] At times the federal government has attempted to supplement its income by imposing a levy on general property, but these efforts brought such unsatisfactory results that they are not likely to be repeated. A few states, such as Illinois, have discontinued entirely the use of the general property tax as a source of income, except for local purposes. These states have resorted to other sources of income, such as sales, inheritance, income, and corporation taxes, without impairing their total incomes. The general property tax is employed satisfactorily by all the local units as the principal source of income; but the larger the area included,

[1]No attempt is made here to present a history or theory of the general property tax. This subject will be treated fully in Chapter 21. Only sufficient facts will be given to show by which unit of government it can best be used.

the less useful and equitable this source of revenue becomes. The reasons for such limitations on the use of the general property tax are not far to seek.

The general property tax is a levy imposed upon all forms of personalty and realty, tangible and intangible, that the owner possesses. As the law defines the general property tax, all the owners' property is grouped together for purposes of taxation. The first problem therefore becomes one of equity among the taxpayers. The first and principal difficulty seems to lie in the lack of uniformity of evaluation of the property for taxation purposes. The larger the area covered, the greater are the variations in assessed values placed upon the property of the taxpayers. If it is difficult to secure uniformity of assessment of general property in a small tax district, like a township where only a few assessors are employed, the problem of equality among numerous taxpayers becomes vastly greater, if not insuperable, should a large government unit, like the state, attempt it.

The tax experiences of Indiana may be used as a concrete illustration of the problems just discussed. Indiana uses the general property tax as one of its principal sources of revenue. All assessments are made by township assessors. These local units also collect the taxes. The state gets its income from general property by "tacking on" to these local rates an additional per cent. A tax survey of Indiana showed that there was not only a wide variation in the assessed values of adjacent pieces of realty, but also that such conditions existed in every part of the state. The valuation of property in the southern part of the state was uniformly nearer the market price than it was in the northern part, yet each section was taxed for state purposes at the same rate. It was a case of imposing a uniform rate on an unequal valuation, which resulted in inequitable distribution of the burden.

In the light of the above facts, it seems clear that the general property tax cannot be used so successfully by the state as by the local units, and not at all by the federal government, although it is perfectly constitutional and legal for the latter unit to use it. It fails as a source of income to the upper units of government because of administrative difficulties and because of inequities among the taxpayers.

But this same rule does not apply in the case of certain other tax bases, such as income. The larger the unit of government, the

more efficiently can the income tax be used. The reason for such difference lies in the fact that the federal government is able to reach a greater proportion of the incomes of the people than can the state. Many of its citizens derive incomes from investments outside the border of the state, which the federal government is better qualified to reach. This very fact has caused the states to tighten their income tax laws so as to reach a greater proportion of the revenue from this source. At present, the Missouri income tax law requires the taxpayer to include a copy of his federal return along with his state income return. The purpose of this requirement is to enable the state to check the taxpayer's income report against that of the federal government. This is an admission by the state that the federal government is in a better position to secure a more complete return on the total incomes.

One of the best examples of the advantages the central government has over local units in collecting certain taxes is to be found in the state of New York. In New York, all taxes on distilled spirits were collected by local units until 1896 In 1895, a total of $2,921,268 was received from this source In 1896, the Liquor License Law removed the administration and collection of these taxes from the local units and placed it in the hands of the state. During the first year of central administration, the state collected $10,663,882. The law provided that, after costs for collection had been deducted, one third of the net amount should be retained by the state, and the other two thirds should be distributed among the local units in proportion to the amount each had contributed Of this net sum in 1896, the local governments received $7,109,254, or about two and a half times as much as they received under local collection

The state of New York collects the taxes on real property mortgages, personal income, and licenses of real estate brokers and salesmen, and divides the net sum with the local units in proportion to the amount received from each source. The state also collects the levies on gasoline and motor vehicle registration, allocating to the local units 25 per cent of the revenue, and collects the taxes on franchises and corporations, allocating to the local units 33⅓ per cent

Allocation of Revenue. For equitable reasons, which have already been explained, the state and federal governments cannot use the general property tax On the other hand, the federal

government can more effectively and more efficiently levy on incomes, certain excises, estates, corporations, imports, and inheritances. Ultimately, it should become possible to distribute among the various governments the various forms of taxable sources Such a separation and distribution of sources should make for greater efficiency of management of the tax system It should also result in greater equity among taxpayers.

In general, there are three types of fiscal relations that may exist among federal, state, and local governments. First, taxes may be assessed and collected by local units and part allocated to the superior governments. The state or central government, for example, merely adds its per cent onto the local rate. In theory, this procedure is both logical and reasonable, because the local unit is nearest to the property to be taxed It already possesses all the necessary fiscal machinery. This applies particularly to the general property tax In practice, however, it fails because it does not make for equity among the taxpayers. It will be recalled that the general property tax is the principal source of revenue for local units The problem of equity among taxpayers becomes difficult when this form of income is used by the central government. This procedure of local assessment, collection, and allocation to the state has been widely used in the United States where the general property tax prevails, but the results have been unsatisfactory There is now a strong movement to abandon collection of revenues for state purposes by local governments This whole problem of separation of tax sources among the various grades and types of governments has not been developed very far, and it should receive further study.

In the second type of fiscal relation, taxes are assessed and collected by the central government and part of the income is allocated to the local units This method of distribution from one government unit to another is found especially in France In that country, the central government at one time levied taxes on land and buildings, on business, on all forms of personalty, and on doors and windows. However, the tax on doors and windows, the business tax (*patentes*), and the inhabited house tax were abolished in 1917.[2] The local units obtain revenue chiefly by adding a certain percentage—the French *centimes additionnels*— to these taxes.

In the United States, many state tax commissions do the as-

[2]E. L. Bogart, *Direct and Indirect Costs of the Great World War*, p. 105

sessing and the collecting of taxes on the properties of railroads, pipe lines, telephone companies, and other public utilities. The reasons for this procedure are: first, only a small part of each such property is usually found within the jurisdiction of the local tax unit, the value of which part is negligible when separated from the whole; and, second, the state tax commission keeps a permanent inventory of the investments in all these public utilities and is ready at all times to make a valuation for taxation purposes. The state treasurer usually collects the revenue and allocates it to the various local units, generally on the basis of the percentage of the total mileage of track, pipe line, or telephone property within their respective jurisdictions.

The third fiscal relation among grades of governments, which to a great extent is found in all countries, is the division of yield. This relation differs from the other two in that no fixed percentage or definite sum is added to the base tax by the local units, but only the yield is divided after the revenue has been collected. In England, death duties and income taxes are assessed and collected by the central government and are allocated to the local units. In Germany, by a law of 1920, the entire administration and collection of income, inheritance, land transfer, and turnover taxes were put in the hands of the central government. Of the net amounts, 66⅔ per cent of the income tax was to be returned to the locals; 20 per cent of the inheritance; 50 per cent of the land transfer, and 15 per cent of the turnover.

Central governments often make subventions to local units for definite purposes. Canada and Australia have followed this practice for the purpose of aiding relief, rehabilitation of agriculture, and the construction of railroads. The American Articles of Confederation of 1781 provided that the central government should be supported by donations or subventions from the various states. The total annual governmental expense was to be determined and then allocated among the states according to population. The various states were to collect their quotas by any means they chose, chiefly, however, by levies on general property, excises, and perhaps import duties. This method of securing operating revenue by the central government failed, because only a few states paid even part of their prorated share. The central government was without money to maintain an army and navy, to meet expenses of operation, and to pay interest and principal

on the public debt. The Confederation of 1781 was ineffective because it lacked a means of support, and therefore soon went out of existence.

When the Constitution was adopted in 1789, the federal government was provided with independent sources of revenue. The Constitution authorized the Congress of the United States to levy and collect taxes, duties on imports, and excises, to borrow money on the credit of the United States, and to pay the public debt. No duty on exports was to be allowed. Direct taxes were to be apportioned according to population, and indirect taxes were to be uniform throughout the United States.

At the first session of the Congress of the United States in 1790, tariff duties were levied on imports and a few excises were provided, chiefly on distilled spirits During the War of 1812, taxes on incomes and inheritances were proposed in Congress, but they were never actually enacted into law. Until the Civil War, the federal government continued to get along on import duties and a few excises chiefly. The Civil War period saw higher tariff and excise duties imposed by the federal government. An income tax was levied for the first time in 1861, but it was allowed to expire in 1872. A second federal income tax law was passed in 1894, only to be declared unconstitutional in the famous Pollock v. Farmers' Loan and Trust Company case,[3] on the ground that it was a direct tax and therefore must be apportioned. The federal government did not attempt to tax incomes again until after the adoption of the sixteenth amendment in 1913. The present complex system of taxes used by the federal, state, and local governments is of comparatively recent origin and will be discussed in detail in later chapters

Federal Subsidies for Education. When a government was established over the Northwest Territory in 1785, it was decreed that part of the public domain should be set aside for the maintenance of public schools. In the Northwest Ordinance of 1787, provision was made for dedicating to higher education seventy-two square miles of public lands in each state. The federal government first gave aid to agriculture in 1862 under the Morrill Law. Under this Act, each state was given 30,000 acres of land from the National Domain for each senator and representative to which it was entitled in Congress, with a minimum of 90,000 acres, for the

[3] 157 U. S. 429; on rehearing, 158 U S 601 (1895).

establishment and aid of agricultural colleges Only a small portion of this domain has been retained by the states For the most part, it has been sold and the proceeds either have been spent or put in an endowment fund to be used for the permanent support of education There are scattered cases, as in Illinois, where there is still to be found the "school section," and the University of Illinois holds a large area of land that is used chiefly for agricultural experimentation purposes States like Washington, Oregon, and Texas have largely disposed of their public lands and now hold the proceeds in the form of endowments These funds are lent at interest to individuals and private corporations, and the proceeds go for the support of public education

The federal government has aided education through gifts of money. By an Act of 1890, the sum of $25,000 was set aside annually for each state and territory "to be applied only to instruction in agriculture, the mechanic arts, the English language, and the various branches of mathematical, physical, natural, and economic science, with special reference to their applications in the industries of life, and to the facilities for such instruction." This gift was doubled in 1907 In 1887 Congress began to make appropriations for the maintenance of agricultural experiment stations. The sum of $15,000 was allotted to each state and territory for this purpose Later, this amount was raised to $30,000, and again, in 1925, to $90,000 annually for each state in the union At present, the total annual appropriations by the federal government for experimental work in agriculture are over $2,500,000. Responsibility for the supervision and spending of these funds rests with the Secretary of Agriculture

Educational extension work in agriculture was first begun in 1914, when Congress enacted the Smith-Lever Act. This law provided that the states must at least match dollars with the federal government or lose all rights under the gift At present, the federal government makes an annual appropriation of over two million dollars for this purpose. Local supervision of extension work is under the direct control of county agricultural agents

The federal government contributes heavily to the aid of vocational education. The Smith-Hughes Act of 1917 makes provisions for two kinds of vocational training First, the law provides for training in agricultural vocations by co-operating with the states in paying the salaries of teachers, supervisors, or

directors of agricultural subjects The contributions by the federal government for this purpose are made to each state in the ratio of their respective rural populations to the total number of people in the United States who may be classed as tillers of the soil. Second, such vocations as trade, home economics, and the industrial pursuits receive federal aid in the ratio that the urban population of each state bears to the total number of people who may be classed as city dwellers.

To be entitled to such gifts, the states are required to furnish all necessary buildings and equipment. They must also contribute a sum at least equal to the amount received from the federal government At present, the federal government is allocating about eleven and one-half million dollars to this purpose annually, although each year the states are spending a far greater sum than their prorata contribution For the teacher-training program the federal government contributes about one million dollars annually, which is distributed among the states in the ratio that the population of each bears to the total number of people in the United States

The George-Deen Act, an amendment to the Smith-Hughes Law, went into effect on July 1, 1938. Under this act, the federal government makes an annual gift to the states for the support of vocational education For the fiscal year of 1938, $14,797,496 was allocated to this purpose, in addition to the annual gift under the Smith-Hughes Act This money is appropriated on a yearly basis according to the needs for funds. It is used to help pay salaries of teachers, supervisors, and directors in the various branches of vocational education

The George-Deen Act provides for co-operation between the federal government and the states in the same manner as under the Smith-Hughes Law. The law makes provisions for the establishment of a bureau of vocational instruction, practical arts, and adult education Subdivisions of this bureau include sections on trade education for boys and men, and for girls and women Also included is a subdivision of vocational commercial education, adult education, vocational homemaking, and general household arts A second division covers industrial arts and vocational school admission, placement and guidance, and the promotion of part-time and evening school classes in the new field of distributive education.

Distributive occupations are those followed by workers who are directly engaged in merchandising activities, or in direct contact with buyers and sellers when:

1. Distributing to consumers, retailers, jobbers, wholesalers, and others, the products of farm and industry.
2. Managing, operating or conducting a commercial service business, or selling the services of such business as laundry, barber, etc.

Distributive occupations do not include stenography, bookkeeping, office clerical positions, and the like, or trade and industrial work followed by those who are engaged in railroad, trucking, or other transportation activities. The act is defined as generally including instruction to such distributive occupations as grocer, owner or salesman of meat, dairy products, candy, fruits, wearing apparel, dry goods, stationery, drugs, jewelry, general merchandise, automobiles, furniture, newspaper stands, and gasoline filling stations

Since 1920, the federal government has been making available about one million dollars annually to the states for the promotion of vocational rehabilitation of persons disabled in industry. This money is apportioned among the states on the basis of population, with a minimum of not less than $5,000 to each. In this case, the states must contribute a sum equal to that received from the federal treasury This money is to be spent for the benefit of any persons who may be expected to be totally or partially incapacitated for remunerative occupation because of injury, accident, or disease

In 1921 Congress passed the Shephard-Towner Law making available to the states about one million dollars annually for the "promotion of the welfare and hygiene of maternity and infancy." Each state, to be entitled to receive such bequest, was required to contribute a sum equal to that of the federal government. The law was repealed in 1929 because so few states were willing to participate.

State Subsidies for Education. In the foregoing sections, various types of federal aid were discussed. This section discusses especially grants by the states

The business decline of 1929 seriously affected the work in the public schools. Many local units could no longer pay the salaries of teachers. In almost every part of the country, schools were either closed or the terms shortened. If thousands of children

were to be given the advantages of an education, state subsidies became necessary. Higher taxes were imposed by the states, chiefly on corporations, incomes, inheritances, and, especially, on sales of commodities to provide for these emergency needs.

After 1933, during the great depression, the states contributed over four hundred million dollars annually in subsidies to the local units for the support of the public schools. Many states, like Alabama, assumed full responsibility of financing a minimum program in the public schools. The legislature of Alabama provided a "program fund" to be used principally to aid in securing a seven-months minimum term for all free common schools of the state. County and city school districts were required to meet certain minimum requirements in regard to tax levies, teachers' salaries, educational standards, expenses to allow for supervision by the State Superintendent of Education, to maintain adequate building facilities, and to provide transportation for children when needed.

The federal government also made large contributions for these same purposes. In 1933, some two million dollars a month were appropriated from federal emergency relief funds to make possible at least part-time employment for unemployed teachers. These teachers were largely employed in small urban centers and in rural districts where local and state funds were exhausted. Teachers were also employed to give vocational and rehabilitation training to unemployed adults and to teach them the fundamentals of reading, writing, and arithmetic.

As a general rule, the states have resorted to various non-property sources for additional educational funds. Arkansas, for example, levied a retail sales tax and allotted 65 per cent of the revenue to the common school fund, to be distributed on a pupil enumeration basis Idaho levied a retail sales tax, the proceeds of which were to go first to pay the cost of administration and emergency relief, the first $100,000 of the balance to go to a public school income fund, and the remainder at the end of the year to be divided equally between the public schools and the general expenses of the state. It also set aside 25 per cent from liquor taxes for a public school fund.

Wyoming allotted $287,000 of the revenue from sales taxes to a school equalization fund. A Georgia law provided that 97 per cent of the revenue derived from license and excise taxes on malt beverages should be devoted to the common schools of the state.

The states of Washington and West Virginia continued to use business transaction and sales taxes for educational purposes Pennsylvania levied a graduated personal income tax for schools, although this was subsequently held unconstitutional South Dakota levied an income tax and provided that 32 per cent of the revenue should be appropriated annually for public schools.

The educational program of the state of New Jersey is very detailed and comprehensive In 1935, the legislature of the state reorganized the system of apportionment for education It created a state public school fund for the support of the free common schools and the equalization of educational opportunities, and established a minimum foundation program. The legislature provided also for a minimum apportionment of state funds to districts in the amount of $13 per elementary pupil and $22 for each student in the high school. Similar amounts were to be allowed to school boards that sent pupils to other districts

Many state and local governments borrowed extensively to support their school systems. Many of these units were either struggling under the burden of a heavy deficit, or had defaulted on their obligations. The experience during the depression years clearly indicated that the central governments cannot leave the support of the educational system to the hazards of the local units. In the future, it will be necessary for states, and possibly the federal government, to supplement the local support of public schools The elaborate buildings and equipment now required, the increase in enrollment, the increased length of term, and the added requirement of qualifications of teachers, have made the financial burden of the public schools too great for local governments to carry Until recently the entire support of the public schools fell on the local unit Today a portion comes from the federal government and a much larger share is contributed by the states. At least three fourths of the expense of the public schools are met by the city, township, and county, the balance coming from federal and state allotments. Since almost all the revenue of the local units is derived from the general property tax, this burden primarily falls on land, buildings, personalty, and other such forms of investment

Subsidies for Transportation. From the beginning of its national existence, the federal government has made liberal contributions to the construction of means of transportation. Wash-

ington himself planned a system of public roads radiating from the capitol. This system was to be built at the expense of the federal government He felt that the economic and political interests required that all parts of the country be bound together by some means of rapid communication

When railroads came into general use after 1830, the federal and local governments made large contributions to their construction In most instances, the state and local governments aided railroad construction by giving money and by special concessions and tax exemptions In a few instances, early railroads were built and operated by the states Many of these state and local bonds issued at that time have since been repudiated. While the federal government aided railroad building with loans and gifts of money, its principal assistance was in land grants. Alternate sections of land along each side of the right-of-way were deeded to the railroads Later this land was sold and the money was used to pay costs of construction of the railroad This policy also encouraged rapid settlement of the country and caused the development of industry along the roads

The railroads suffered greatly as a result of the depression after 1929 Their rolling stock and track facilities were allowed to fall into disrepair, interest and principal on bonds were not paid, and many right-of-way improvements and extensions were not made. Because of these distressed financial conditions, the federal government was compelled later to give extensive financial aid to the railroads, chiefly in the form of loans through the Reconstruction Finance Corporation

With the turn of this present century and the coming of the automobile, the era of highway building began again. The nature of the materials used, the manner of construction, and the extensive mileage made these highways very expensive to build and to maintain. The financial burden was too great for state and local governments, and federal aid became necessary On July 11, 1916, President Wilson signed the Federal Aid Bill, which definitely launched the United States upon a road-building program A system of federal highways soon developed that now reaches every section of the country Under this Federal Aid Road Act, federal money was to be spent under the supervision of the highway departments of the several states The law specified that "only such durable types of surface and kinds of material shall

be adopted for the construction and reconstruction of any highway . . . as will adequately meet the existing and probable future traffic needs and conditions thereon."

The Federal Bureau of Roads was in charge of virtually all construction details. In order to receive such aid, the state was required to maintain all roads constructed in part with federal funds. Federal highway subsidies were to be apportioned among the states on the following basis: "one third in ratio which the area of each state bears to the area of all the states; one third in the ratio that the total population of each state bears to the total population of all the states, as shown by the latest available Federal census; and one third in the ratio which the mileage of rural delivery routes and star routes in each state bears to the total mileage of rural delivery routes in all states " In no case was the federal government to pay more than one half the cost of any highway constructed on this joint basis with the state.

Jurisdiction Over Tax Bases. The rapidly mounting expenditures, debts, and deficits have had a great bearing on the interfiscal relations among federal, state, and local governments. Each is looking desperately for new and additional sources of revenue, with the result that there has been duplication of levies on the same tax base. This problem of multiplicity of taxation has reached the stage where it is now necessary for the federal and state governments to work out some plan of co-operation.

Double taxation exists when the base is taxed more than once by the same government at the same time for the same purpose. The taxation of corporate income might be a case in point. It is clearly double taxation when the same net profits of a corporation are taxed by the state while yet in the possession of the corporate entity and also taxed as personal income of the individual after they have been distributed to the stockholder.

Multiple taxation exists when the base is taxed by the government for different purposes at the same time. The general property tax furnishes an excellent example. The taxpayer may have a general property tax base of ten thousand dollars upon which a levy is made for the support of every function that the units of government having jurisdiction exercise. The tax bill usually specifies that the amount is for general government, roads, schools, eleemosynary institutions, and bonded indebtedness. There has been much confusion over the idea of multiple taxation. Some have

attempted to use this term to denote the opposite of the single tax, whereas the single tax actually is a multiple tax (with respect to the purpose for which it will be used) on a single base. In general, there is no question as to the legality of the multiple tax as such.

In general, real property (land and all things permanently attached thereto) is taxable only by the government or governments within whose jurisdiction it lies, *lex rei sitae*, while the taxable situs of personalty follows the domicile of the owner, *mobilia personam sequuntur* Personal property may also be taxed wherever it is found, unless there is a comity of arrangement between the states or other units of government providing for exemption of personalty from taxation in one state when it is actually owned by the citizen of the other The same problem arises in regard to the taxation of income. The income taker may be a resident of one state, or even of another nation, and derive income from outside the jurisdiction of his domicile. In such cases, unless there is mutual arrangement to exempt such tax, each state or nation may levy on the income derived from within its jurisdiction In one state, it will levy upon the income of the taker; in the other, upon the income derived. Fortunately, many states and nations have entered into compacts and treaty arrangements for the mutual exemption of income derived from within their borders by foreign citizens. The courts, especially the United States Supreme Court, have done much to eliminate this multiple taxation arising out of jurisdiction, but the problem has not yet been entirely clarified.

The problem is particularly difficult in the United States because of the dual-sovereignty arrangement between the states and the federal government. Except in certain cases, each has its own authority to levy and collect taxes. Taxation is an innate power that goes along with sovereignty. It is one of the powers that is presumed to exist, unless withheld by some constitutional or statutory means [4] A state cannot levy on imports, except with the consent of Congress to pay expenses of inspection, or in general on goods moving in interstate commerce (International Textbook Co. v Pigg, 217 U. S 91, 30 S. Ct. 481 1910) The courts have held that a state cannot tax goods which have been imported as long as they remain in their original package, or until they become mixed with the general stock of the importer (Brown v State of Maryland, 12 Wheaton 419 1827, F. May & Co. v. City of New

[4] State of Wisconsin *et al.* v. J C. Penny Co, 61 S. Ct 246, 311 U S 435 (1940).

Orleans, 170 U. S. 496, 20 S Ct. 976 1900). Merchandise moving in interstate commerce is not subject to taxation by the state or local government until it comes to "rest" (Coe v. Town of Errol, 116 U. S. 517, 6 S Ct. 475 1886) There is probably no more difficult and constant problem of taxation before the courts than that of jurisdiction.

Many states have attempted to circumvent these constitutional restrictions on the taxation of interstate commerce through their police power and by setting up ports of entry where small fees are charged for inspection (United States Fidelity and Guaranty Co v. Bingaman, 298 U S 407, 56 S Ct. 756 1936). Several states, as Missouri, Iowa, and Wisconsin, now have "use taxes" that are levies on goods purchased elsewhere and brought into the state for storage or consumption [5] Justice Cardozo, speaking for the United States Supreme Court, sustained the use tax largely on the ground that its purpose was to establish equality and not discrimination.[6] The real purpose of the use tax is to prevent purchases from escaping the sales tax It is intended to prevent the citizen or merchant who lives near the border from going into another state to buy his goods and bringing them home without paying a sales tax The real problem of the use tax is one of administration. So freely and easily do people move from one state to another that it is difficult to enforce the use tax on goods bought elsewhere and brought home for storage or consumption

Iowa has the use tax, which is defined by the state law as an excise at the rate of 2 per cent of the purchase price on the use in the state of tangible personalty This use tax is complementary to the sales tax, and is only required to be paid when the latter law does not apply to the transaction. The use tax was interpreted to include all transactions incident to the transfer of title, whether they be interstate or intrastate Accordingly, early in 1941, Sears, Roebuck & Company and Montgomery Ward & Company contested the constitutionality of the Iowa Use Tax Law.[7] The United States Supreme Court sustained the constitutionality of the law on the ground that a tax or other burden does not discriminate against interstate commerce where "equality is the theme."

It has been explained how the various units of government

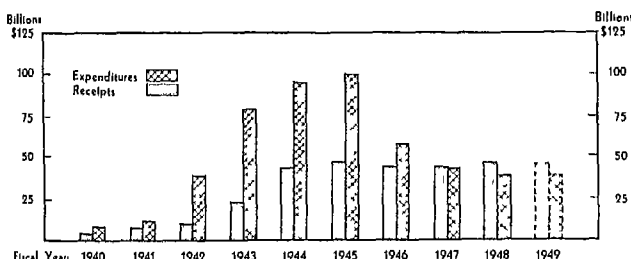
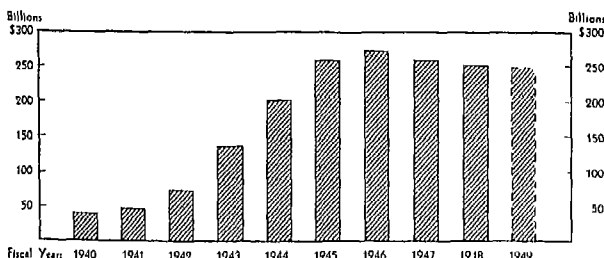
[5]Public Administration Service, *The Use Tax*, 1941

[6]Hanneford v. Silas Mason Co , 300 U S 577 (1937)

[7]Nelson, Chairman of State Tax Commission *et al.* v Sears, Roebuck & Co , 61 S Ct. 586 (1941), also Nelson, Chairman of State Tax Commission *et al* v. Montgomery Ward & Co., 61 S. Ct. 593 (1941)

may, and often do, pyramid the tax on the same bases The states and their local units tax general property with more or less doubtful results. The states and the federal government tax incomes, estates, gifts, excess profits, business transactions, and sales In the case of gasoline, the purchaser may be required to pay a tax on each gallon to the city, county, state, and federal governments The consumer's price is usually advanced by at least the total of these taxes; hence, the burden is shifted immediately on to the consumer

Recent Changes in Fiscal Relations. The business recession after 1929 and the World War II emergency made it necessary to reinterpret the functions of government and such fiscal matters as public borrowing, lending, and deficits The following pictorial diagrams show the changes in the federal debt and federal deficit for the fiscal years indicated.

BUDGET RECEIPTS AND EXPENDITURES*
Based on Existing and Proposed Legislation

THE PUBLIC DEBT*
Based on Existing and Proposed Legislation

*Appropriated from The Budget, U. S Government, 1949, pp. 58m-59m

A few years ago such vast debts and deficits would have been regarded as impossible for the government to assume Similar fiscal conditions, although in lesser volumes, may be found among the states and local governments The result is that there is a veritable race for revenue among federal, state, and local governments Everywhere, there is to be found a multiplicity of levies on all the available taxable sources and a constant search by all units of government for new means of raising additional income The problem of a better distribution of public expenditures and of sources of revenue among federal, state, and local governments on some more equitable and efficient basis is constantly becoming more acute.

During the past few years, there has been a great shift of control among federal, state, and local governments Just as the federal government has gained tremendously in economic control over the states, so the latter have acquired control over, if not displaced, many functions formerly exercised by the local units. The economic and social life of the people has become so complex and so extensive in its scope, and financial burdens have become so heavy, as to require the support of the combined efforts of federal, state, and local governments The local units, and even the states, are finding it increasingly difficult to take care of schools, roads, and eleemosynary institutions. They must therefore depend to a greater extent upon subventions, gifts, and subsidies from the central governments

Much has been said about the federal government's usurping the powers of the states, but only a moment's reflection will convince one that some concentration is not only logical but necessary The financing of many political and economic functions of the state now seems to be more a matter of co-operation among the units of government than of each supporting its own institutions. Political scientists are now suggesting that local governments, and for certain purposes, even states, should be combined into single administrative and financial units, because each when acting alone is not able to support certain of its own functions. The tendency of the federal government today is to lend aid to certain sections of the country rather than to a particular state or local unit

It has already been noted that a distribution of functions among federal, state, and local governments will also entail a

separation of expenditures and revenues. There is a real need of devising a national system of taxation in such a way as to attain a higher degree of administrative efficiency and to reduce to a minimum multiplicity of levies It is a short-sighted policy for one government to devise a system of taxation without consulting the others By co-operation, costly duplication and lack of uniformity may be avoided, and efficiency of collection may be greatly increased No doubt local units are best able to assess taxes on general property. States are turning more to sales taxes on motor vehicles, gasoline, and commodities. The federal government has a monopoly on all receipts from custom duties and, to a large extent, on certain excises. As between the states and the federal government, taxes on personal incomes, inheritances, estates, gifts, and corporations should be levied and collected co-operatively. It is only by such co-operative means that all the legitimate income may be secured from these sources The net sum should be allocated to the lower units of government on the basis of need.

As a source of income to the government, the sales tax, especially when certain commodities are selected, has unlimited possibilities. But the selection of the commodities upon which this tax is to be levied and the assessment and collection of the proceeds are matters of co-operation between the states and the national government. Amusement taxes on theaters, ball games, prize fights, and taxes on intrastate businesses are best assessed and collected by the state. The obvious problem of the future, which has been only sketchily presented here, is the rational distribution of functions among federal, state, and local governments, the separation of expenditures and revenues among them, and finally, a system of subsidies, division of yield, and allocation of incomes from the upper governments to the lower units.

Borrowing Among Governments. Since public expenditures have in many instances greatly exceeded incomes, governments have become heavy borrowers, especially during the war and recovery years, both among themselves and from their own people Certain aspects of public borrowing should therefore be classed as intergovernment fiscal relations. It is impossible to separate the economic effects when governments borrow among themselves from those when they borrow from their people, therefore, both aspects will be considered at this time Several special federal

agencies were created to handle this intergovernment borrowing and lending The whole problem of contingent debt liability of the federal government in regard to these special federal agencies is briefly discussed in a later chapter

In certain respects, public borrowing may be considered as deferred taxation Sooner or later, the borrowed sum must be repaid out of the proceeds collected by taxation. The economic effects of public borrowing may be far-reaching Such public acts have been accused of causing inflation of prices, of artificial contraction of currency, of withholding funds from useful and productive employment, of shifting the burden from the wealthier to the poorer classes, of creating special privileged groups, and of speculation and gambling in public-debt securities Because of their broad and intricate articulations with almost every phase of our economic, social, and political systems, public borrowings may have dire or beneficial effects.

Methods of making public loans have now developed into intricate and technical processes. If a government wishes to borrow, say a billion dollars, it is unlikely that it will need all this amount at one time As will be explained in another chapter, a series of short-time securities is at first floated, which is later consolidated into long-term bonds. This method of borrowing provides funds as they are needed It does not necessarily withhold capital from productive use or cause inflation. The proper fixation of the interest rate is highly important. If the rate is too high, it is likely to upset the current commercial rate, and thereby exert an adverse economic effect. The government may fix a higher interest charge than is necessary, thereby unduly increasing the debt burden Since the interest rate is a cost factor, whether the borrower is the state, a private concern, or an individual, it should be fixed at that point which will just produce the required funds The state is a permanent institution, theoretically at least, with great wealth at its command, and the per cent that it pays for its loans represents the nonrisk interest rate. In order that government borrowings may compete as little as possible with private needs, the public rate should be kept under the open market rate that prevails among banks and industrial concerns

Governments may borrow from their own people or secure their funds from abroad. The economic consequences of these two cases are not quite parallel If a government borrows at home, it

merely exchanges its promises to pay, usually in the form of bonds, with its people for a definite amount of purchasing power. It has been contended that, as in the case of taxation, the government has just that much more to spend, and its people have that much less; however, this statement may be a little too broad and will be discussed more in detail in a later chapter.

Of course, as has already been explained, lenders may take their bonds to a bank and, by using them as collateral, secure additional loans, thereby pyramiding the supply of credit. Such steps of inflation have at times had important political and economic repercussions. These consequences should always be considered in connection with such public acts It is easy to see how governments may, through their power to borrow funds, exercise an enormous control over the general money market. It has been suggested, and tried to a limited extent, that governments should always stand ready to absorb or to control the extra purchasing power when the surplus is likely to be used in riotous speculation When times are not too abnormal, governments, through their borrowing power, may exert a powerful stabilizing effect upon the general economic situation. The Federal Reserve System was organized, in part, to regulate the volume of purchasing power and the supply of credit by means of the Federal Reserve note and open market operations The federal government may therefore absorb the excess purchasing power from the money market in one or both of two ways—first, by floating its bonds, and, second, by issuing Federal Reserve notes A few economists contend that the great catastrophe of 1929 was in part caused by the large investment in government bonds by the Federal Reserve banks But this contention is still a debatable issue

When the government borrows at home, it merely exchanges its bonds for the purchasing power of its people. When this public debt is paid, each lender, through the process of taxation, contributes to the state out of his income for the liquidation of these bonds It is in this manner that, in the broadest sense of the term, government borrowing is a form of deferred taxation, and should not be camouflaged as having other economic consequences

In its general effect, there is one great distinction between government borrowing at home and raising the funds by means of taxation If the government attempts to raise a large fund of money by taxation, the chief burden will rest immediately on the

wealthy classes because they have the surplus out of which it may be raised. On the other hand, if this fund is to be had by means of a bond issue, the wealthy chiefly buy these promises to pay. The poorer classes are able to contribute small sums over long periods of time for the liquidation of these securities and thus to assume part of the burden. This is what many economists mean when they speak of "mortgaging the masses to the classes" It is claimed that, in this manner, the burden of supporting the government can be shifted to the shoulders of the low-income groups But the case need not be quite as bad as it at first appears. By steeply graduated surtaxes on incomes and inheritances, and by exercising care in the spending of government income, the tax burden may be lifted, in part at least, from the poorer classes and laid upon those who are better able to pay It is under such circumstances that the government stands in a position to exert a powerful influence on the distribution of the burden of public borrowing, and the direction of the flow of social income.

In the case of government borrowing abroad, the economic consequences may be entirely different. In the first place, one government seldom lends to another, except in times of emergencies If the government of Belgium, for example, were to float a loan in the United States, in all likelihood it would be done through some large bank As a rule, the bonds are negotiable and are not put on the market until after the funds have been secured. Instead, certificates may be issued by the finance house, which may be exchanged later for the permanent bonds. Sometimes temporary non-negotiable certificates or bonds are issued that are replaced later by the long-time obligations As soon as the private bank secures the contract to execute the loan, it immediately enlists the services of its syndicates and associates. It usually allocates among them a portion of the loan. By this means, it is able to draw upon a large supply of available funds and also to distribute the risk.

Except in rare cases, the money or purchasing power is not actually sent abroad to the borrower. It is goods and services and not cash that the borrowing nation wants. The Soviet government borrowed heavily in this country, but largely for the purpose of buying heavy machinery from American firms. For the most part, government loans, as the recent British loan of $3,750,000,000,

are spent in the lending country. In the last analysis, they represent a sale of goods on credit.

One government usually lends to another only during a great catastrophe. In 1917, after the United States entered the war against Germany, large loans were made, chiefly to England and France. These countries needed food, clothing, chemicals, and munitions that they proposed to buy in the United States. They sent their interest-bearing bonds to the federal government, which were deposited as collateral in the United States Treasury. The United States government issued its Liberty Bonds to raise the funds to pay for these supplies, which were shipped direct to the battlefields in France

If the borrowing countries had invested this newly acquired capital in such enterprises as productive equipment or internal improvements, the subsequent income might have contributed partly or wholly toward the liquidation of the debt. This was true of the loans to Finland But, as in the case of England, the loans were wholly in the form of credit spent in the United States for war supplies The proceeds of the loans were dissipated in unproductive ways in fighting the war. There were no resulting utilities to produce income to service the debt Accordingly, in paying this kind of loan, the debtor nation must export a portion of its wealth to the creditor country. Such payment represents a net loss to the debtor in so far as the country's tangible assets are concerned, either to the present or subsequent generation. The burden is shifted to succeeding generations.

Payments of international loans present a very difficult problem, especially when the creditor nation wants neither the debtor's gold nor its goods and services. If the creditor nation took gold in payment, inflation might be started within its borders. If it received goods and services on account of the loan, such imports might seriously derange the industries of the creditor country.

When World War II began, the problem of intergovernment borrowing arose again. The experience in World War I definitely proved that it was practically impossible for the borrowing nation to repay and perhaps equally disastrous for the creditor nation to receive. It was obvious that the United States must extend aid to England or the nation would be crushed under the heel of Nazism. Accordingly, the Lend-Lease Law was passed, which,

as the terms suggest, authorized the President to lend and lease, for a consideration, all types of military equipment to the English government and its allies. Theoretically, the title of all this equipment remained in the federal government, although the Allies were allowed its use for war purposes The whole arrangement was another way of avoiding the inevitable cancellation of the foreign debt after the war.

One further point in regard to the economic effects of public borrowing. Just as purchasing power, either by means of taxation or otherwise, may be taken from the pockets of the people too rapidly, so funds may be returned to them so rapidly as to affect private business. The economic interests so affected are likely to be numerous and varied If the debt is paid too rapidly, the capital market may be affected by adverse interest rates. On the other hand, cheap money may act as a boom to business and start an inflation of prices, ending in a recesison Many investors, who prefer to deal in government bonds, may be forced to put their money in more speculative securities. In some instances, as in the case of Federal Reserve Bank notes, now being liquidated, government bonds are a necessity as collateral security and hence they cannot be cancelled without replacing them with other issues

Summary. Of late, chiefly because of the increased burden of expenditures for social purposes, federal, state, and local governments have made common contributions for the support of these new functions. The great depression of 1932-39 also greatly increased the necessity of this intergovernmental fiscal relation.

The distribution of functions among the federal, state, and local governments in certain cases likewise requires a distribution of expenditures and revenues among them. But not all forms of revenue can be equally and efficiently used by the various units of government. Except for the general property tax, the tendency is for the upper levels of government to collect the revenue and to allocate it on some basis to units of lower grade. This has led to the gradual concentration of control by the states over the fiscal affairs of the local units, and especially by the federal government over those of the states and locals It is a little dangerous to generalize, but it may be said that, on the whole, a grade of government can most efficiently perform a function or use a source of income that is contained and derived from within the limits of its jurisdiction.

National governments, especially during great emergencies, often engage in common fiscal activities and make loans to each other. The problem of repaying these loans becomes especially difficult because of the economic impracticability of means of payment.

TEXT QUESTIONS

1. What is the principal source of income to local and state governments?
2. What is the general property tax?
3. Why is it unsuited as a source of income for the federal government?
4. What taxing unit can use the income tax to greatest advantage? Why?
5. What fiscal relations exist between local, state, and federal governments?
6. What sources of federal income are specified in the Constitution?
7. What provisions for education were included in the Northwest Ordinance of 1787?
8. How have these provisions been employed by the states?
9. What grants for education were provided by the Act of 1890?
10. What are the provisions of the Smith-Hughes Act of 1917?
11. In what respects has the Smith-Hughes Act been amended?
12. To what extent have the various states subsidized education?
13. How were subsidies apportioned under the Federal Aid Road Act of 1916?
14. Explain single, double, and multiple taxation
15. Is the use tax in accordance with the principles of the Constitution?
16. Why may government borrowing be regarded as deferred taxation?
17. What is meant by the phrase "mortgaging the masses to the classes"?
18. What is the greatest problem in intergovernmental borrowing?
19. Can public debts be repaid too rapidly?

RESEARCH TOPICS

1. Ascertain, by writing to the tax commission of your state, how much the federal government expects to spend in your state for such purposes as for roads, education and health during the ensuing fiscal year, and then determine the part which the state much provide How will the state raise its part of the funds?
2. Determine the aids which the state will give its local units of government to support their educational systems, roads and health Are there any arrangements for dollar matching between the state and its local units on this spending program?

3. Make a study of the powers and duties of your state tax board of equalization. To what extent has it succeeded in equalizing tax burdens in the local units? To what extent does the state tax commission supervise tax assessments and property evaluations, budgeting and borrowing of its local units of government?
4. Select a block in your city, or a small area in a country district and compare valuations for taxation purposes with market valuations. This market valuation may be made by appraisal, or by taking the last sale, if recent enough to be useful, or by comparison with comparable sales in the same or similar area. Do the same for another part or parts of the state. What conclusion can you draw as to the equitableness of the general property tax when used by local units and when used by the state? Much of these data may be had by referring to state tax reports.

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CHAPTER 8

INTERGOVERNMENT FISCAL RELATIONS: SOCIAL SECURITY TAXES AND EXPENDITURES

The latest, and perhaps one of the most important, interfiscal relationships between the federal and state governments is economic security for the masses. This problem is almost entirely one of government economics, and hence it has become an integral part of public finance. The fiscal policies of social security, taxes, expenditures and the trust funds will be discussed in this chapter.

The great depression of 1932-39 brought one of the worst unemployment problems the country had ever seen. The federal government, through its United States Employment Service, attempted to co-operate with the states in setting up a clearing house program of labor placement by bringing the unemployed worker and the employer together. This plan of intergovernment fiscal relationship will also be considered in this chapter

The Problem of Social Security. Social security is an attempt on the part of the state to insure its people against certain economic misfortunes of life that arise out of causes which are largely beyond the individual's control, but which society, in its collective capacity, may alleviate or prevent. Millions of people have little or no surplus on which they may draw during periods of idleness. They must depend on their daily earnings from employment for sustenance. Any cessation of this income, whether due to illness, dependency, unemployment, old age, industrial displacement or accident, soon reduces them to want or destitution. Relief in some form must be forthcoming for those who cannot provide against such untoward events. According to prevailing theories of the state in relation to its people, the assistance must come largely through the agency of the government. Social security, therefore, becomes one of the most important services that a government may provide for its people It has now become a definite function of government and its expenditures regularly appear as integral parts of the current budget [1]

[1] See Index of The Budget of the U. S Government for the Fiscal Year Ending June 30, 1949, p. 1349, for budgeted expenditures

Because of allocation of funds from the federal government to the states, and from the latter to certain local political divisions, social security creates very complex interfiscal relations among these various units of government. The problem of social security for the underprivileged is so extensive as to require the co-operation between the states and the federal government The problem has become too big and too complex for either unit of government to handle it alone. A highly specialized system of taxes has been created to provide the funds for these requirements and a separate policy of public expenditures for these purposes has been developed

As will be explained later in this chapter, funds that are received through social security taxes are deposited with the United States Treasury into what is called trust funds. The Secretary of the Treasury, as trustee of these funds, is authorized to exchange bonds or other obligations of the United States for these deposits, maintaining only a relatively small amount of cash reserve for current needs Social security is, therefore, directly concerned with the problems of taxation, public debts, and government reserves. The matter of shifting and incidence of social security taxes should be mentioned also, although their technical consideration will be deferred to the close of the chapter.

The provisions of the Social Security Act will therefore be discussed in this chapter only in so far as they bear upon (1) taxation, (2) public debts and expenditures, (3) trust funds, and (4) the interfiscal relations among various grades of government in the United States, arising out of these programs. The intricate details by which its programs are implemented will be mentioned only occasionally and incidentally.

Development of Social Security in Foreign Countries. Many nations of Europe and of other parts of the world have been far ahead of the United States in the development of social security for the masses The idea of social security developed very slowly at first in the United States due largely to the great national income and also because such large percentage of the people lived on farms. But as the country turned industrial and more people became wage earners, economic security grew more precarious and uncertain

Germany seems first to have inaugurated a system of health insurance in 1883, and an old-age pension plan as early as 1889

In regard to the individual economic security for the masses, Bismarck once said that "The State must take the matter in hand, since the State can most easily provide the requisite funds It must provide them not as alms but in fulfillment of the worker's right to look to the State where their own goodwill can achieve nothing more".

Great Britian followed Germany with old-age benefit legislation in 1908 During and after World War II, the economic condition of the masses in England deteriorated. Accordingly, on June 10, 1941, an Inter-departmental Committee on Social Insurance and Allied Services was appointed to undertake a survey, among other things, of a social insurance and workmen's compensation program. Sir William Beveridge, K.C.B., was its chairman, the report taking his name [2] Out of this report has come one of the most comprehensive social security programs for the masses, which went into effect on July 6, 1948, that has ever been undertaken by any government This "cradle to the grave" social security program of Britain promises everything for the individual from maternity care to death benefits at government expense A few of its principal provisions are as follows:

1 Doctor's care at the expense of the government to every one as often as needed,
2 Hospitalization to be provided without charge,
3. Drugs, eyeglasses, hearing aids, artificial limbs are to be provided free at government expense,
4 Dental treatment, including false teeth;
5. Sick benefits to a worker are 24 shillings a week, if single, or 40 shillings a week to a married couple with one child,
6. Maternity payments to employed mothers amount to 36 shillings a week for 13 weeks, with an additional grant of £4 to all married women; to unemployed mothers £8 after the birth of each child,
7. Unemployed benefits for 30 weeks, which may be extended, of 24 shillings a week to single men, married men get 16 shillings a week additional for their wives, and 8 shillings a week for the first child,
8. Children's allowances of 8 shillings a week for each child after the first child whether the child's father is working or not,

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[2]Sir William Beveridge, *Social Insurance and Allied Services*, New York, The Macmillan Company, 1942

9. Industrial injury payments are 24 shillings a week for 26 weeks for a single person, and 40 shillings a week if married,
10. Old-age pensions are to be 24 shillings a week after age 65 for men and 60 for women, if single, and 40 shillings for married couple These amounts are to be increased if they work five years longer,
11. Death grants of £20 to adults for funeral expenses, less for younger persons.

The budgeted expense of the first year of operation of the above program was £697,000,000. It is estimated that the annual cost of its operation will rise to £868,000,000 twenty years later in 1965. Compulsory contributions to the insurance fund by wage earners, employers and the employed will cover about half the total cost. A workman will pay 4 s. 3 d a week, the employer 3 s. 3 d. a week, and the Government an equal sum out of general tax revenues.

Other countries, such as Poland in 1911, Holland and Sweden in 1913, Spain in 1919 and France in 1928 have adopted social security programs. The Soviet Union of Russia, Australia, New Zealand and Chile have also enacted similar measures Several years before the United States Government turned its attention to these matters a few states had already enacted social security laws relating to old-age and unemployment benefits. Thus the problems of social security have become closely integrated with the fiscal functions of about every type and grade of government.

Federal Social Security Act. The Federal Social Security Act was approved on August 14, 1935, its constitutionality sustained by the United States Supreme Court in May, 1937,[3] and amended by Congress on August 10, 1939, with many other changes of more recent date. On July 1, 1939, the Social Security Board, with all its staff, became part of the Federal Security Agency On July 16, 1946, under the Government Reorganization Act of 1945, the Social Security Board was abolished and all its functions and personnel were transferred to the Federal Security Administration under the immediate direction of a Commissioner.

The Social Security Law represents a major advance in the attainment of economic independence for the individual and for

[3] In Stewart Machine Co v Davis, 57 S Ct 883 (1937) the unemployment part was sustained In Helvering v Davis, 57 S Ct 904 (1937) the old-age was upheld.

his family In general, social security for the individual concerns itself with two major factors: (1) provision for decent homes in which to live; and (2) provision against the major misfortunes of life. The Social Security Act is primarily concerned with the second factor, which has to do with the government aiding the individual to contend with those economic conditions over which he has little or no control. In the United States, social security was devised to provide some safeguard against the insecurity of modern life through certain co-operative action between federal and state governments. Only through the old-age and survivors' insurance system does the federal government alone furnish this economic security directly. It merely co-operates with and lends its aid to the states in the other aspects of the social security program.

The provisions of the Federal Social Security Act of August 14, 1935, and its many amendments, may be grouped under the following eight programs:

I. SOCIAL INSURANCE
- (a) Unemployment Insurance
- (b) Old-Age and Survivors' Insurance

II PUBLIC ASSISTANCE TO THE NEEDY
- (a) Old-Age Assistance
- (b) Aid to the Needy Blind
- (c) Aid to Dependent Children

III. CHILDREN'S SERVICES
- (a) Maternal and Child-health Service
- (b) Services for Crippled Children
- (c) Child-Welfare Service

The Social Security Administration, as a division of the Federal Security Agency, is now the administrative body of the Social Security Act. Its immediate administrative officer is a Commissioner who is appointed by the President of the United States with the advice and consent of the Senate. The duties of the Social Security Administration are various, but, in general, they include (1) approval of state plans for aid to the aged, to the unemployed, to children, and to the blind, and the subsequent supervision of state operation under federal requirements, (2) certification to the Secretary of the Treasury of proper old-age benefit payments, (3) approval of the state unemployment compensation laws, and certification to the Secretary of the Treasury of proper payments

and supervision of these expenditures, and (4) conducting studies and making recommendations to Congress and the President in regard to the entire social security program.

The Social Security Act, as originally enacted in 1935, provided for three general types of benefits payable directly by the federal government: first, monthly payments after a person has reached the age of 65; second, certain lump-sum benefits to be paid at 65, and, third, contributions upon death. Average wages or salaries of all employed workers under 65 years of age on December 31, 1936, in the United States, the District of Columbia, Alaska, and Hawaii, which come within the provision of this Act, were to be used in the computation of these benefits.

Old-Age Assistance. The two plans of old-age assistance and old-age insurance under the Social Security Act should not be confused. Each is designed to deal with different problems. The assistance plan is based upon *need*, and the insurance plan upon *average wage earnings*.

The old-age assistance plan provides cash allowances for elderly people who are in need and makes it possible for those who cannot support themselves to live in their own homes. This assistance plan is financed jointly by the states and the federal government, and is therefore a typical federal-state interfiscal program The states receive federal money for old-age assistance if they have adopted plans that are approved by the Social Security Administration Section 1 of the Social Security Act states that "For the purpose of enabling each state to furnish financial assistance, as far as practicable under conditions in such state, to aged needy individuals, there is hereby authorized to be appropriated for the fiscal year ending June 30, 1936, the sum of $49,750,000, and there is hereby authorized to be appropriated for each fiscal year thereafter a sum sufficient to carry out the purposes of this title. The sums made available under this Section shall be used for making payments to states which have submitted, and had approved by the Social Security Board established by Title VII, State plans for old-age assistance."

The Social Security Act, as amended, requires that a state plan for old-age assistance must, in the main, (1) provide that it shall be in effect in all political subdivisions of the state, (2) provide financial participation by the state, (3) provide for a state agency to administer or supervise the administration of the plan; (4) pro-

vide for hearings for those who may have been denied claim for old-age assistance

Each state administers its own plan of old-age assistance and pays part of the cost of administration out of its own money. A few states earmark certain taxes, as on sales, for this purpose. Most states merely appropriate money from time to time out of general funds to meet these expenditures The state decides what allowance shall be paid to each person who receives aid, considering the need in each case and the amount of money the state has for this purpose In determining the need of any person, the state, through local relief offices, takes into account several considerations. First, an inventory of all his or her property and income from whatever source, including gifts from relations and friends is made, second, his or her need for housing, food, clothing, medical care and other necessary items, is also determined. Most states also impose a residence requirement, which cannot be in excess of 5 years before eligibility for old-age assistance if they expect assistance from the federal government

Whatever the state decides the amount of the allowance shall be, the federal government pays part, up to a combined federal-state maximum of $45 a month for each person. This limit on the federal share of the total allowance does not prevent the state from paying either less or more than $45 a month Of this sum, the federal government contributes two-thirds of the first $15 of the average monthly assistance plus one half of the remainder within the maximum If the maximum of $45 is paid, the federal government contributes $25 and the state $20. If the state pays more, the amount above $45 is made up entirely by the state out of its own funds.

When a state plan of old-age assistance has been approved by the Social Security Administration and has been put into effect, Section 5 of the Act provides that the Secretary of the Treasury shall pay to such state, beginning with the quarter commencing January 1, 1940, an amount for any month not to exceed its legal contribution, which shall be used exclusively for the needy individual who, at the time, is 65 years of age or older and who is not an inmate of a public institution. The Act also provides that the federal government shall contribute an additional sum equal to 5 per cent of such amount to share the costs of administering the state plan. Based on the maximum of $45, the federal govern-

ment's contribution will be 5 per cent of $25, or $1 25, making a total of $26 25 per month per person

Federal Old-Age and Survivors' Insurance Benefits. The old-age and survivors' insurance benefits under the Social Security Act is a program that is maintained wholly and entirely by the federal government. The Social Security Act includes two general insurance programs: (1) an old-age insurance system designed to furnish the worker and his family something on which to live when he is too old to work; and, (2) assurance of an income to his dependents including his wife, children and parents after his death. Under this plan, monthly benefits became payable beginning in 1940 These benefits are payable to workers and to certain dependents and survivors only if the worker has received wages in employment covered by this Act Covered employment is defined by the Act to include wage earners in private industry and commerce, such as in factories, shops, mines, mills, stores, offices, banks. Professional people, domestics, and agricultural workers are not covered. The cost of paying federal old-age and survivors' insurance benefits is offset by taxes that are levied in equal amounts on both employer and employees The amount that the federal government will pay depends upon the workers' accumulated wages, earned after 1936 and before he is 65, from jobs covered by the plan. The amount of the benefit is computed upon the worker's average monthly wage not in excess of $250 a month

Amendments to the Social Security Act of August 10, 1939, provide, among other changes in the old-age insurance system, that lump-sum payments to workers reaching the age of 65 shall be discontinued, except when a deceased worker leaves no survivor entitled to monthly benefits Instead, such workers upon filing proper application now have an opportunity to get monthly benefit payments for life on retiring from work at any time after their sixty-fifth birthday. Even if the worker has already received a lump-sum payment under the old program, he may still be eligible for monthly payments. The amount of such lump-sum payment will, however, be deducted from his monthly benefit

Before the Social Security Act was amended in August, 1939, wages earned by a worker after he had become 65 did not count toward monthly benefits. Under the amended Act, this "stop-date" at age 65 is removed, so that a worker may continue to

build up insurance wage credits regardless of his age, as long as he remains in employment covered by the plan. This change was made retroactive and became effective as of January 1, 1939. Beginning with that date, wages earned in covered employment count toward insurance benefits, regardless of the age of the worker This makes it possible for the worker to qualify for monthly payments, even if he has reached the age of 65, and does not have sufficient wage credits to claim the annuity benefits. The law, as now amended, provides that the worker may claim his retirement benefits at any time after the age of 65, provided he has acquired sufficient wage credits in covered employment, and stops working, or is not earning more than $14.99 a month in a job covered by the Social Security Act.

In summary, wages earned prior to 1939 count toward old-age benefits only if they were paid before his sixty-fifth birthday Wages earned after January 1, 1939, count toward benefits regardless of how old the worker was when he earned them Therefore, if he does not have enough wage credits to qualify for monthly old-age insurance benefits when he reaches age 65, he may still earn them by continuing to work at jobs covered by the Social Security Act

The amended old-age insurance program not only provides benefits for the individual wage earner, but it also extends the same protection to certain members of his family Under the new program, the wife of the beneficiary, if she is also 65 years old, is supported by him and is not earning more than $14.99 a month on a job covered by the Social Security Act, is entitled to a supplementary sum equal to one half of her husband's benefits A dependent child under 18, unmarried, and not earning more than $14.99 a month on a job covered by the Social Security Act, is also entitled to a separate payment equal to one half of the father's annuity A widow over 65 years of age is entitled to three fourths of her husband's benefit. A widow of any age who has dependent children in her care is entitled to three fourths of the husband's benefit; in addition, a dependent child under 18 and unmarried, not earning more than $14 99 a month on a job covered by the Social Security Act, receives a benefit equal to one half of the father's annuity. If the wage earner leaves no widow or child but does leave a parent over 65 who was chiefly dependent on him, then such parent receives one half of his annuity, provided this parent

is not earning more than $14.99 a month on a job covered by the Social Security Act These benefits are payable to the survivors of wage earners who die after 1939 If an individual died before the end of 1939, his estate received a lump-sum benefit equal to 3½ per cent of the total wage paid to him in covered employment, as under the original law

The monthly benefit under this plan is calculated as follows. A basic amount equal to 40 per cent of the first $50 of the average monthly wage plus 10 per cent of the next $200 of average monthly wages, to this is added 1 per cent of the basic amount for each year in which the individual was paid at least $200 in covered employment

The following tables will show the benefits payable under the above formula to retired workers with different average earnings, and also to their wives, dependent children, and survivors. In each case, it is assumed that the wage earner earned $200 or more in covered employment in each of three years With fewer years of coverage, the benefits would be slightly lower than the amounts shown The Social Security Law provides that the minimum bene-

WAGE EARNERS' AND DEPENDENTS' MONTHLY BENEFITS

Average Monthly Wage	Wage Earner's Monthly Benefit	Benefit for Wife Over 65	Benefit for Each Dependent Child
$ 50	$20 60	$10 30	$10 30
100	25 75	12 88	12 88
150	30 90	15 45	15 45
200	36 05	18 03	18 03
250	41 20	20 60	20 60

SURVIVORS' MONTHLY BENEFITS

Average Monthly Wage	Widow's Benefit	Total Benefits Widow and One Child	Total Benefits Widow and Two Children
$ 50	$15 45	$25 75	$36 05
100	19 31	32 19	45 06
150	23.18	38 63	54.08
200	27 04	45 06	63 09
250	30 90	51 50	72 10

fit shall be $10 a month If the worker has a wife over 65, the combined benefit may not be less than $15, and if there is also a dependent child, the total sum may not be less than $20 The greatest total monthly benefit that may be paid is $85.

Under a 1946 amendment to the Social Security Act, survivors of qualified veterans of World War II may receive benefits under the old-age and survivors' insurance program.

These benefits are payable when the veteran (1) has served at any time on or after September 16, 1940, and before the official end of World War II, and (2) has had 90 days or more of active service in the armed forces or, if his service was less, was discharged because of disability or injury, and (3) has died within 3 years after his discharge

Such veteran is deemed to have died fully insured, and, as in case of any other worker, monthly benefits may be paid to his unmarried dependent children under age of 18 and to his widow at age 65 if she does not remarry, or to his aged dependent parents When no one is immediately eligible for monthly benefits, a lump-sum payment may be made.

The following table shows the receipts and annual benefit payments by years under the Federal Old-Age and Survivors' Insurance Trust Fund:

RECEIPTS OF AND BENEFITS PAID FROM FEDERAL OLD-AGE AND SURVIVORS' INSURANCE TRUST FUND

(Amounts in thousands)

Year	Receipts[4]	Benefits Paid[5]	Year	Receipts[4]	Benefits Paid[5]
1937	$267,261	$ 1,016	1943	$1,190,405	$165,938
1938	402,412	10,048	1944	1,362,692	208,972
1939	529,951	14,163	1945	1,406,823	273,885
1940	580,200	35,354	1946	1,348,557	378,104
1941	717,259	88,083	1947	1,607,335*	466,192
1942	939,859	130,675	1948	1,806,606	556,174

*Federal Budget for 1950, page 931

Federal Old-Age and Survivors' Insurance Trust Fund Section 201(a), under Title II of the Social Security Act, provides for an "Old-Age Trust Fund," the deposits in which are to be held in the Treasury of the United States This Section states that "There is hereby created on the books of the Treasury of the United

[4]Annual Report of the Secretary of the Treasury for the Fiscal Year Ended June 30, 1947, page 447.

[5]Data supplied by I. S Falk, Director Research and Statistics, Social Security Administration

States a trust fund to be known as the 'Federal Old-Age and Survivors' Insurance Trust Fund.' " The trust fund consists of the securities held by the Secretary of the Treasury for the Old-Age Reserve Account and the amount standing to the credit of the Old-Age Reserve Account on the books of the Treasury on January 1, 1940, which securities and amount the Secretary of the Treasury was authorized and directed to transfer to the trust fund, and, in addition, "such amounts as may be appropriated to the trust fund as hereinafter provided." There was appropriated to the trust fund for the fiscal year ended June 30, 1941, and for each fiscal year thereafter, out of any moneys in the treasury not otherwise appropriated, amounts equivalent to 100 per cent of the taxes received under the Federal Insurance Contributions Act and covered in the Treasury. For the fiscal year ended June 30, 1948, there was appropriated by Congress the sum of $1,819,500,000 to the Federal Old-Age and Survivors' Insurance Trust Fund, and an estimated sum of $1,896,774,000 for 1949

The Social Security Act now provides for a Board of Trustees, consisting of the Secretary of the Treasury, the Secretary of Labor, and the Commissioner of the Social Security Administration, to hold and manage this trust fund. The Secretary of the Treasury is the immediate managing trustee whose duty is to invest such portion of this trust fund as, in his judgment, is not required to meet current withdrawals Such investments may be made only in interest-bearing direct obligations of the United States Government, or in such other securities as are issued by government agencies and are contingently guaranteed as to both principal and interest by the federal government.

The managing trustee, the Secretary of the Treasury, is directed to pay from the trust fund into the Treasury such amounts as are estimated from time to time by him and the Commissioner of the Social Security Administration and the Treasury Department for the administration of Title II and Title VIII of this Act and the Federal Insurance Contributions Act. Such payments shall be covered in the Treasury as repayments to the account for reimbursement of expenses incurred in connection with the administration of Titles II and VIII of this Act and the Federal Insurance Contributions Act. Such repayments shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. If it subsequently appears that the estimates in any

particular three-month period were too high or too low, appropriate adjustments shall be made by the managing trustee in future payments.

The following table shows the status of receipts, expenditures, and investments of the Federal Old-Age and Survivors Insurance Trust Fund as of June 30, 1947.[6]

RECEIPTS, EXPENDITURES, AND INVESTMENTS OF THE FEDERAL OLD-AGE AND SURVIVORS' INSURANCE TRUST FUND, JUNE 30, 1947

I	Receipts, total	$10,558,750,936.25
II	Expenditures, total	1,760,735,989 52
		$ 8,798,014,946 73
III	Investments	
	Treasury Notes	$ 1,109,000,000 00
	Treasury Certificates	5,995,000,000 00
	Treasury Bonds	1,638,334,250 00
	Total Investments	$ 8,742,334,250 00
IV.	Unexpended balances	55,680,696 73
V	Total Assets	$ 8,798,014,946 73

Unemployment Insurance Act. The purposes of unemployment compensation are to provide an income to the worker during the time when he is out of a job and to encourage the states to maintain unemployment insurance systems In a sense, it is an insurance against the loss of wages, and of a reasonable standard of living Much human want and destitution that result from unemployment arise out of conditions over which the workers have little or no control. The fluctuations of the business cycle and general industrial conditions affect greatly the volume of employment. The shift of the age distribution, coupled with long periods of enforced idleness during depressions, is making it more difficult for elderly groups to earn a livelihood. Technological improvements have, at least immediately, the tendency to throw both old and young employees out of employment Unemployment is, therefore, in part a social problem by which the public interest is greatly affected

Until recently, with each slack in business, the employer proceeded to cut his costs, partly by lowering wages and partly by

[6]Annual Report of the Secretary of the Treasury for the Fiscal Year ended June 30, 1947, p. 447.

reducing the number on his payroll, both of which greatly affected the total purchasing power of all the working classes and thereby increased and prolonged the evil consequences growing out of unemployment Businessmen are now beginning to realize that wages and employment must be kept at their highest possible level in order that the volume of purchasing power of the masses may be sufficient to absorb the products of industry, and thus to keep industry in operation Economic difficulties can arise when there is not a fair balance between production of goods and services and total purchasing power.

Unemployment compensation is, therefore, intended to meet two great social issues: first, to guarantee the necessities of life, such as food, clothing, and shelter, to the laboring classes during periods of unemployment; and, second, to maintain a market for industrial and agricultural products by effecting a better distribution of purchasing power among those who would otherwise drop out of the market. To accomplish these results, government has become an indispensable factor in the administration of this form of aid.

Requirements of State Law. The federal government has no unemployment compensation law. Except for certain general provisions that are prescribed by the federal government, each state is left free to provide its own unemployment compensation program Any state may or may not permit separate industry and plant accounts, and may or may not require employees' contributions in addition to the sum paid by the employers Each state may fix its own benefit rates or waiting periods, and each is charged with direct responsibility for administration.

The amount of the weekly benefit payments a worker may receive while unemployed therefore varies rather widely among states Usually, it is about half the worker's full-time weekly pay, except when there is prescribed a maximum and minimum. The maximum among the states ranges from $15 to $28 a week The minimum varies from $3 to $10 a week Most states provide partial benefits for partial unemployment. The maximum period during which such benefits may be paid also varies, ranging from 2 to 30 weeks.

The entire plan of unemployment compensation is therefore a co-operative federal-state program. The federal government does not administer any part of this program Instead, it merely helps

the states to finance and to administer their own plans. The federal government has, however, adopted measures to insure uniformity with respect to the cost to employers. It assures the safety of all reserve funds and seeks to secure efficient administration of unemployment compensation throughout the country. At the same time, it allows freedom for variations to meet the different conditions in the several states and makes it possible to get the practical experience needed to test the various theories that have been current as to the best type of unemployment compensation act.[7]

The Social Security Administration is charged with the administration of the federal part of the unemployment compensation system—other than the investment of the funds, which is a function of the managing trustee, the Secretary of the Treasury This board is to assist the states with their problems of administration and is required to certify annually to the Secretary of the Treasury which state laws comply with the prescribed federal standards. The board is also required to certify to the Secretary of the Treasury the amount of payment that should be made to each state for the proper administration of its unemployment compensation law The board's determination of such fixed sum is based upon (1) the population of the state, (2) an estimate of the number of persons covered by the law, and (3) such other factors as should be taken into consideration.

In general, each state decides upon its own tax rate, the tax bases upon which levies are to be made, whether or not employees contribute, the size of business establishment subject to the law, the kinds of employment covered, and other relevant conditions. Each state is free to enact any type of unemployment compensations law which seems appropriate to its particular conditions, except that, to secure the approval of the Social Security Administration for federal co-operation, each state must provide that (1) all compensation is to be paid through some public employment office of the state or one approved by the Administration, (2) no compensation is to be paid for any day of unemployment occurring within two years after the first day of the first period with respect to which contributions are required; (3) all money received for the unemployment fund shall be paid to the Secretary of the Treasury for credit to the Unemployment Trust Fund, (4) compensation shall not be denied by any state to any eligible individual for

[7] *Congressional Record*, Vol 79, Part 13, pp 14, 160

refusing to accept new work under any of the following conditions (a) if the position offered is vacant due directly to a strike, lockout, or other labor dispute; (b) if the wages, hours, or other conditions of work are substantially less favorable to the individual than those prevailing for similar work in the locality; (c) if, as a condition of being employed, the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization

The administration of unemployment compensation is therefore a joint interfiscal project between the states and the federal government. Under Section 301 of the Social Security Act, for the purpose of assisting the states in the administration of their unemployment compensation laws, there was authorized to be appropriated for the fiscal year ended June 30, 1936, the sum of $4,000,000 for each fiscal year thereafter, up to and including 1938, the sum of $49,000,000 for 1939; and for each year thereafter, the sum of $80,000,000. In the 1948 fiscal year there was appropriated by Congress to the Unemployment Trust Fund $1,404,050,000 and an estimated sum for 1949 of $1,416,611,930.

Employment Taxes. The Federal Internal Revenue Code of 1939 under the Social Security Act provided for certain taxes upon employment other than by common carriers. Section 1400 of the Code requires that, in addition to other taxes, there shall be levied, collected, and paid upon the income of every individual a tax equal to the following percentages of the wages received by him after December 31, 1936, with respect to employment after such date

1. With respect to wages received during the calendar years 1939, 1940, 1941, and 1942, the rate shall be 1 per centum.
2. With respect to wages received during the calendar years 1943, 1944, and 1945, the rate shall be 2 per centum.
3. With respect to wages received during the calendar years 1946, 1947, and 1948, the rate shall be 2½ per centum.
4. With respect to wages received after December 31, 1948, the rate shall be 3 per centum

But these rates have been fixed by act of Congress through December 31, 1949, at 1 per cent Beginning January 1, 1950, the rate may become 1½ per cent.

As a tax on employers, Section 1410 of the Code provides that, in addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ, equal to the

following percentages of the wages paid by him after December 31, 1936, on employment after such date:

1. With respect to wages paid during the calendar years 1939, 1940, 1941, and 1942, the rate shall be 1 per centum.
2. With respect to wages paid during the calendar years 1943, 1944, and 1945, the rate shall be 2 per centum.
3. With respect to wages paid during the calendar years 1946, 1947, and 1948, the rate shall be 2½ per centum.
4. With respect to wages paid after December 31, 1948, the rate shall be 3 per centum.

   But these rates have been fixed by act of Congress through December 31, 1949, at 1 per cent Beginning on January 1, 1950, the rate shall be 1½ per cent.

On January 1, 1937, the excise tax on employers and the levies on the incomes of employees under Title VIII of the Social Security Act, began to accrue All employers, regardless of the number of their employees, were subject to the payroll tax under this title of the Act, unless they were specifically exempt. Beginning January 1, 1939, every employee, regardless of age, was subject to the tax as imposed under Title VIII, unless he was engaged in some exempted employment, such as the professions, agriculture and domestic service

The tax on both employer and employee was based on "wages" payable for employment during the calendar year. The term "wages" was defined in the Act as the remuneration up to the first $3,000, payable each year to each employee The employer is responsible for the payment of both his own and his employee's tax from wage payments The employees' tax becomes effective at the time that wages are either actually or constructively received, when they are credited to the account of, or set aside for, an employee, if not yet actually in his possession

Taxes were imposed on both employers and employees for old-age benefit purposes under the original Title VIII of the Social Security Act. The provisions of this title were later incorporated into Subchapter A of Chapter 9 of the Internal Revenue Code and were amended by the Social Security Act Amendment of 1939 Subchapter A is now designated as the "Federal Insurance Contributions Act." Title II of the Social Security Act, which provided for the payment of old-age benefits, has also been entirely revised and made effective on January 1, 1940 It now bears the title of "Federal Old-Age and Survivors' Insurance Benefits"

Under the Federal Unemployment Tax Act, the levy applies only to those employers who have eight or more employees during a total of 20 or more weeks during the calendar year. For the year 1939, this tax applied at the rate of 3 per cent of the total wages paid by the employer to each of his employees for work done during the year This tax is paid by the employer. The employer is allowed a credit of as much as 90 per cent, or 2.7 per cent out of the 3 per cent tax, against this tax for contributions paid by him under state unemployment compensation laws approved by the Social Security Administration Ten per cent, or 0 3 per cent out of the 3 per cent tax, is to be used for payment of the expenses of administration by the federal and state government. The purpose of this payroll tax was in part to encourage the states to pass unemployment compensation laws A few states contended that this credit system amounted to the federal government's coercing the states into enacting legislation respecting subjects which were within their absolute direction; but such contention is hardly valid. The states were free to act or not to act

The following table shows the status of receipts, expenditures, and investments of the Unemployment Trust Fund as of June 30, 1947 [8]

RECEIPTS, EXPENDITURES, AND INVESTMENTS OF THE UNEMPLOYMENT TRUST FUND, JUNE 30, 1947

I Receipts, Total Cumulative Through June 30, 1947	$12,272,825,614 40
II Expenditures, Total	4,403,781,167 39
	7,869,044,447 01
III Investments	
1 Special Treasury Certificates, 2%	$ 7,142,000,000 00
2 Treasury Bonds	710,000,000 00
	7,852,000,000 00
3. Cash Unexpended	17,044,447 01
Total Assets	$ 7,869,044,447 01

[8] Annual Report of the Secretary of the Treasury for the Fiscal Year ended June 30, 1947, pp 449, 450

The following table shows the receipts and annual benefit payments by years under the Unemployment Trust Fund:

UNEMPLOYMENT TRUST FUND
RECEIPTS AND BENEFITS, 1936-1948
(Amounts in Thousands)

Year	Receipts[9]	Benefits[10]	
		Withdrawals by states	Railroad Unemployment Ins. Account Benefits
1936	$ 18,949	$ 150	
1937	294,439	2,100	
1938	762,832	404,025	
1939	838,087	429 094	$ 5,252
1940	958,639	517,167	15,449
1941	1,113,922	341,927	15,088
1942	1,243,587	344,263	6,695
1943	1,398,524	77,583	1,014
1944	1,566,909	62,975	568
1945	1,507,756	461,268	1,949
1946	1,279,779	1,103,553	39,168
1947	1,289,398	786,648	54,862
1948	1 312,906*	852,484	60,120

*Federal Budget of 1950, page 931

Other Types of Government Aid. In addition to aids to the aged and to the unemployed, the federal government also cooperates, under the Social Security Act and its amendments, with the states in furnishing financial assistance to dependent children, maternal and child welfare, public health, and the blind The need seems almost overwhelming, especially when the United States Children's Bureau, testifying before the Senate in March, 1946, reported that there were in this country 200,000 children with epilepsy, 500,000 with rheumatic fever and heart disease, 175,000 with active tuberculosis, 500,000 with orthopedic and plastic defects; 1,000,000 with hearing defects, 4,000,000 with visual defects requiring correction with glasses, 20,000,000 with dental defects

To qualify for contributions from the federal government toward supporting special care for such children, the state must, in general, (1) establish a definite plan for providing such care, (2) provide for the necessary administrative machinery, (3) assure

[9]Annual Report of the Secretary of the Treasury for the Fiscal Year Ended June 30, 1947, page 449-450.

[10]Data supplied by I. S. Falk, Director Research and Statistics, Social Security Administration.

that it shall be equally in effect in all political subdivisions of the state, (4) provide a financial program for the participation by the state, and (5) insure an opportunity for a fair hearing for any claimant whose claim has been denied.

Dependent Children. For the purpose of assisting each state to furnish financial aid to needy dependent children, Congress was authorized under Section 401 of the Social Security Act to appropriate for the fiscal year ended June 30, 1936, the sum of $24,750,000, and thereafter such additional amounts as will be necessary to carry out the purpose of this title.

The law requires each state to make a contribution for the same purpose, and its plan must meet the approval of the Social Security Administration. The board cannot, however, approve any plan that imposes, as a condition of eligibility for aid to dependent children, a residence requirement that denies aid with respect to any child (1) who had lived in the state for one year immediately preceding the application for such aid, or (2) who was born within the state within one year immediately preceding the application, if its mother has resided in the state for one year immediately preceding the birth.

The federal government exercises no supervision whatever over the forms of taxation or the manner of levy and collections that the state may employ in raising its part of the money necessary to become eligible for this federal grant.

The Social Security Act also provides that the federal government will contribute its share of payments made by any state within limits of $24 a month for the first dependent child and $15 a month for each additional child in the same family. The federal government's share is two-thirds of the first $9, or $6, of the average monthly payment per child, plus one-half of the remainder of expenditures within the maximums The state may pay more than the matching sums or it may pay less, as its law requires A "dependent child" is defined as one who is under the age of 16, or 18 if he is regularly attending school, and who has been deprived of parental support through death, absence, or incapacity of his parents, and who is living in a private home with relatives

All federal appropriations for the purpose of carrying out the provisions of this title are deposited with the Secretary of the Treasury who shall pay to each state an amount that is necessary

in accordance with the execution of its plan. The method of computing and paying such amount shall be as follows:

1. The board shall, prior to the beginning of each quarter, estimate the amount to be paid to the state for such quarter, based upon a report from the state as to the estimated amount necessary to care for its dependent children. The federal government, of course, only pays half of such estimated amount for the ensuing quarter.
2. The board shall then certify to the Secretary of the Treasury the amount so estimated.
3. The Secretary of the Treasury shall, through the division of disbursement of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the state, at the time fixed by the board, the amount so certified

The Social Security Adminstration, through its Commissioner, reserves the right to withhold certification and payment of federal money to any state that has failed substantially to comply with the provisions of the Social Security Act

Maternal and Child Welfare. Beginning July 1, 1935, the federal government began sharing expense with the states for promoting the health of mothers and children, especially in rural areas where they may be suffering from severe economic distress. The administration of this section in the Social Security Act is in the hands of the Secretary of the Department of Labor, whose duty it is to approve the plans of the states, and to certify to the Secretary of the Treasury the amount of funds that should be so allocated.

Section 501 of the Social Security Act authorized Congress to appropriate $5,820,000 for the fiscal year ended June 30, 1936, for the purpose of assisting the states in promoting maternal and child welfare. Section 502 of the same Act provided that out of the above sum the Secretary of Labor may allot to each eligible state $20,000, and such part of $2,800,000 as represents the proportion of the number of live births in such state to the total number in the United States. The Secretary of Labor is also authorized to allot to the states, out of the same general appropriation, up to $1,980,000 according to the financial needs of each state for assistance in carrying out its plan for these purposes Under the Social Security Act, as amended in August, 1946, Congress may appropriate each year the sum of $11,000,000 for maternal and child health services. This sum was appropriated for the fiscal year

1947-1948. Half of this amount, or $5,500,000, or any part thereof, must be matched by the State

All federal appropriations for aiding the states in maternal and child welfare are put under the custody of the Secretary of the Treasury The Act requires the Secretary of Labor to ascertain, at the beginning of each quarter, from each eligible state, the total amount that it will spend for maternal and child welfare and to certify to the Secretary of the Treasury that one half of this sum be paid

Further aid is extended to the states through the Children's Bureau for meeting the costs of medical care of crippled children, and is allocated on the basis of need, taking into consideration the number of patients that require attention The federal government will pay to each state, which has an approved plan for services to crippled children, an amount equal to one half of the total sum expended. Under the Social Security Act, as amended in August, 1946, Congress may appropriate, and did for 1947-1948, $7,500,000. Half of this amount, or $3,750,000, must be matched by the states

The federal government also extends, through the Children's Bureau, grants in aid to states for the protection and care of homeless, dependent, and neglected children who are in danger of becoming delinquent This amount is to be allotted by the Secretary of Labor to the states primarily on the basis of rural population The amount so allotted is to be expended to defray part or the cost of child-welfare services in areas predominantly rural of wherever there is special need

The federal government appropriates annually a sum of money in order to enable it to co-operate with the states and Hawaii for the promotion of vocational rehabilitation of persons disabled in industry or otherwise and to return them to civil employment

For the purpose of preventing sickness and of stamping out certain types of diseases, the federal government co-operates with the states in establishing public health services. Allotments to the states are to be made by the United States Surgeon General of the Public Health Service, with the approval of the Secretary of the Treasury, on the basis of population, the special health problems of the community, and the financial needs of the respective states This money is to be used by the states for extending service and assistance to counties and other governmental units in maintaining adequate public health programs

Aid to the Blind. This federal aid is made for the purpose of enabling each state to furnish financial assistance to needy individuals who are blind This sum is made available for making payments to states that have submitted and had approved by the Social Security Administration state plans for aiding the blind The federal government appropriated an amount equal to one half the total sum expended under the state plan with respect to each individual who is blind and is not an inmate of a public institution This federal aid is limited to a maximum of $20 per month to each eligible individual, and a sum equal to 50 per cent of the total states' administration expenses.

The state plan must comply with certain standards prescribed by the federal government, such as provision for financial participation by the state, designation of a single state agency to administer the plan, and provision that no aid shall be furnished to a blind individual while in receipt of old-age assistance.

The Social Security Act provided that, for aiding the states in furnishing financial assistance to needy individuals who are blind, Congress was authorized to appropriate for the fiscal year ended June 30, 1936, the sum of $3,000,000, and such amount thereafter as might be necessary to carry out the purposes of this title The federal government also shares in the expense of administration of the law The sum of $8,000,000 was appropriated in 1940, and about $10,000,000 was required during the fiscal year ended June, 1941, to carry out the purposes of this title The sums made available are used for making payments to states that have submitted, and have had approved by the Social Security Administration, state plans for aid to the blind. The Social Security Administration reserves the right to withhold payments in case the state does not comply with the provisions of the Social Security Act

The United States Employment Service. The participation by the federal government in placement of labor originated in 1907 with the creation of the Division of Information, Bureau of Immigration and Naturalization in the Department of Labor The Employment Service was later established by a departmental order as a unit in the Department of Labor in 1918

With the enactment of the Wagner-Peyser Law in 1933,[11] and its amendment in 1935, the United States Employment Service was greatly expanded This Act provided that, in order to pro-

[11]Wagner-Peyser Act, 48 Fed. Stat. 113, 29 U S C 49 (June 6, 1933)

mote the establishment and maintenance of a national system of public employment offices, there be created in the Department of Labor a bureau to be known as the United States Employment Service. These employment offices, where those who are seeking jobs may register and where the employer may secure both skilled and unskilled labor, are maintained in every important center throughout the United States.

The federal government lent substantial financial assistance to the states in the development of this employment service. The Act authorized Congress to appropriate $1,500,000 for the fiscal year of 1934, $4,000,000 annually up to and including 1938, and thereafter such amounts as might be necessary from time to time for this purpose The Act also provided that 75 per cent of the amounts appropriated should be apportioned among the several states in the ratio of their respective populations to the total of the United States This money was to be used for the purpose of establishing and maintaining a system of public employment offices in the several states After January 1, 1935, under the Wagner-Peyser Act, no state should be apportioned less than $10,000. The law also provided that no payment should be made to any state until it had appropriated an equal sum for the purpose of maintaining public employment offices. To be eligible for such apportionment, the state must accept the provisions of the Wagner-Peyser Act and create the necessary administrative machinery for co-operating with the federal government. The federal government at all times reserves the right to withhold all co-operation with the states if the latter refuse or fail to comply with the provisions of the Act States, in order to receive the benefits, are required to submit to the Director of the United States Employment Service detailed plans for carrying out the provision of the law. If the plans are in conformity with the provisions, they are approved by the federal agency and the funds are allocated. This federal agency is charged with the responsibility of determining whether the public employment offices maintained by the states are conducted upon standards of efficiency required for fulfilling the purposes of the law.

Both the federal and state governments make their contributions out of general revenue that is collected by such methods as to them seem most reasonable and just. The federal government, however, does derive considerable money from private funds such

as the Laura Spellman Rockefeller Foundation, which is used entirely for research on the problems of unemployment. Funds for the maintenance and operation of the system of employment office service are appropriated out of the general federal and state revenues. In either case, no special taxes are levied to raise the necessary funds for these purposes

All federal money for the purposes of the Wagner-Peyser Act is held in the Treasury of the United States and may be allocated to a state only upon proper request by the Director of the United States Employment Service.

The United States Employment Service was formerly lodged in the Department of Labor. But under the President's "government reorganization plan" of July, 1939, the new Bureau of Employment Security was created under the Social Security Board, into which was consolidated the job-insurance activities of the United States Employment Service. Later, by Executive Order, the United States Employment Service was made part of the War Manpower Commission until its liquidation when it was put back in the Department of Labor The United States Employment Service was transferred back to the Social Security Administration on July 1,1948.

After World War II, when unemployment had reached a minimum, Congress, provided, by an Act on July 26, 1946, that all public employment offices be returned to the states as of November 16 of that year Thus, the federal government ceased to co-operate with the states on employment placement on that date.

Summary. The Social Security Act furnishes one of the best examples of financial co-operation between the federal government and the various states for the accomplishment of common objectives. It may be reasonably assumed that that type of co-operation is but the beginning of what may be expected between these two governments in the future The present-day economic and social problems are becoming too complex and too extensive for either government to handle them alone

This plan of social security finance is, to a very large extent, responsible for the development of new levies of taxes and for the increase in public expenditures. It gives a new slant on the redistribution of wealth. It emphasizes the fact that security in all its forms is to be regarded in the future as an indispensable function

of government It has now become necessary for both the federal and state governments to budget for such expenditures.

The problems of administration under the Social Security Act have not only rested heavily upon the federal and state governments, but also upon private business corporations The latter, in many cases, have been made instruments through which the taxes have been levied and collected In one sense, the Social Security Act is a plan of enforced savings for the aged and the low-wage earning groups. It is a co-operative plan of the federal and state governments by which aid to certain dependent and underprivileged classes is extended

In such instances as assistance to the blind, dependent children, maternal and child welfare, for the establishment of health programs, and the maintenance and operation of a system of employment offices throughout the states under the United States Employment Service, the federal and state governments appropriate the money out of the proceeds of the general revenue derived by taxation Under such conditions, when the burden is spread over the entire tax system, there is no problem in regard to shifting and incidence upon a particular group or groups. For such purposes, neither the federal nor state governments levy special taxes to derive the necessary revenue But in such cases as unemployment compensation and federal insurance contributions, where the revenue is derived by a special tax that is divided between the employer and employee, the question of shifting and incidence of the burden becomes very important. Since such tax is regarded as a factor in the cost of production, the tendency is for the employer either to shift the burden forward onto the consumer in higher prices or on the laborer in lower wages It is extremely doubtful that the employer will be able to shift the tax burden to the consumer by way of higher prices because the levy neither substantially affects the supply and demand of the goods nor increases the total purchasing power in the community If the burden is shifted at all, it is more likely to fall upon the laborer in the form of lower wages Whether or not the wages of those employed are reduced or those who are hired receive less because of these social security taxes, is a question that is yet to be answered

The federal and state governments have not only seen fit to co-operate in giving assistance to the aged, the unemployed, the dependents, and the unfortunates, in the way of direct relief under

the Social Security Act, but also through the United States Employment Service to aid the unemployed in finding jobs These various employment offices, under the United States Employment Service, act as clearing houses for bringing employers and employees together. The Employment Service also makes extensive study of the problems of unemployment, job analysis, and general placement of labor. This service of aiding the unemployed to find jobs should be regarded as more productive from a social point of view than any direct relief.

TEXT QUESTIONS

1. What is the purpose of the United States Employment Service?
2. What is Social Security?
3. What control does the Secretary of the Treasury exercise over the various government trust funds?
4. When and in what country was a national health insurance plan first instituted?
5. Give a brief summary of the British "cradle to the grave" program
6. When was the Federal Social Security Act enacted?
7. What are the eight services of the Federal Social Security Act?
8. Differentiate between old-age assistance and old-age insurance
9. What is unemployment insurance?
10. To what extent does the federal government participate in unemployment insurance?
11. What is the current federal employment tax on employees?
12. What are "wages" under the Social Security Act?
13. To what extent is social security provided for dependent children by the federal government?
14. What is a "dependent" child?
15. Enumerate the provisions for maternal and child welfare under the Social Security Act
16. How much was spent by the federal government, in 1941, for aid to the blind?
17. When did federal participation in labor placement begin?
18. What is the Wagner-Peyser law of 1933?
19. Is U S.E S a part of the Department of Labor?
20. Does the federal government still participate in employment placement?

RESEARCH TOPICS

1. What aids does your state give to the unemployed? To what extent does the federal government help your state in taking care of the unemployed? How is this aid apportioned between the state and the federal government? How does your state raise the funds used for aid to the unemployed?
2. Make a study of the workmen's compensation plan in use in your state Give special attention to the organization which makes it

operate. Review some of the legal problems and case decisions which have been raised in regard to its enforcement. How is the money raised which your state uses in this workmen's compensation plan?

3. Make a study of the British Social Security plan, and compare its coverage and costs to the social security in operation in the United States. Ascertain the benefit payments in each case, and, in terms of standard living and costs of living determine their adequacy.
4. Summarize the arguments for and against compulsory health insurance in this country.

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CHAPTER 9

GOVERNMENT BUDGET: ITS HISTORY AND PREPARATION

The modern government, at least one that presides over millions of people, receives a large annual income and, of course, makes billions of dollars of disbursements. Such governments have become extremely complex. Certain affairs are handled more or less directly by establishments and major departments, which are usually further subdivided into divisions, bureaus, offices, or whatever name they make take. Any one of these may have little or no direct relation with the others. In the case of the federal government, they are all maintained almost entirely by congressional appropriations In the United States, there are many independent government agencies. These, too, must have support. In addition, the law-making bodies are continually making appropriations for research studies, investigations, or for other purposes that meet their plans. In short, the government's expenditures flow through many channels. How is the annual government income apportioned among the many spending agencies? How is the total income brought into relation with the total outgo? What effects do these government incomes and outgoes have on the whole economy? These, and related questions, may be studied in the operation of the budget.

At this point, the student should be sure that he has discovered the part that budgeting plays in government finances. In an earlier chapter it was explained how the functions of government and their costs are first determined and then a program of taxation and public borrowings is arranged to meet these costs The budget contains an itemized record of these expenditures and incomes, and effects a correlation of the two. Budgeting is therefore the administration of the fiscal affairs of government

Meaning of the Term Budget. Someone has defined budgeting in general as the government worrying about its expenditures and revenues in advance. The term *budget* originally came from the French la bougette, a little bag in which the Chancellor of the Exchequer kept his papers. Now it refers to a periodic comprehensive statement, usually for one year, of the total financial

operations of the state or of its political subdivisions In its practical sense, a budget presents a detailed account of the comparative incomes and expenditures of the current and preceding fiscal years and that of the one next beginning It contains also a system of taxation, suggested by the chief executive to the legislative body for producing the needed revenues, and a broad outline of the fiscal policy as it affects the whole economy for the next budgetary year

In its largest sense, the budgetary process is designed to reduce the perils of inefficiency, extravagence, and fraud in the fiscal operations of government. It creates an administrative machinery by means of which the whole process of government expenditures and of revenues are co-ordinated It provides for the management of all credit and borrowing operations of the state and for the custody of public funds, usually through the central banking institution. In its modern connotation, the term budget is therefore regarded as including all the financial operations of a government, or of its political subdivisions, for a definite period of time, as prepared by the chief executive, legalized by the properly constituted legislative body of the people, and carried into effect according to law by those who have been authorized to act for this purpose The budget is, therefore, fiscal in its nature It partakes of both the political and economic functions of government The budget is the one public document that sets forth a catalog of all the functions and activities of the state and the amounts that may legally be expended on each It is the only basis upon which a sound efficient fiscal system of government may be founded and administered

History of the Budget. The budget, in some form, has been adopted by every country of importance; it is one aspect of modern fiscal administration of government that has become all but universal It is used by local political units as well as by central governments Comparatively speaking, budgeting is of fairly recent origin and development Even during the time of Adam Smith the idea of government budgeting was not understood widely He did not even mention the term in his book, *The Wealth of Nations* It was not until well after the turn of the nineteenth century that the real significance of the science of budgeting began to be realized The change in point of view was probably due to the great extension of state functions, to the

wide popular or democratic control over public expenditures and revenues, to the necessity for checking waste and for the institution of greater efficiency in the fiscal affairs of political operations, and to the tremendous growth in the use of public credit and deficit financing in government activities in all countries of the world.

Scientific control of government finance through budgeting has reached a higher degree of perfection in England than in any other country In fact, in ordinary times, English statesmen regard the forecasting of government expenditures and revenues for the fiscal year as unsatisfactory if either or both of these amounts vary by as much as one half of one per cent of the budget estimates This fact is probably due to the early development of the democratic form of government among the English-speaking nations. The budget seems to have become an indispensable part of democracy.

The early English king regarded all the property of the realm as his own. He, therefore, proceeded to make such use of it as he chose and to spend without restraint or accounting Then followed the long struggle between the king and his subjects to gain control of the public purse The first success of the people came in 1215 when the people forced King John to sign the Magna Charta In that document, the king agreed to make expenditures and to levy taxes only under specified conditions and always in a reasonable manner. In the seventeenth century came the long struggle between the Stuarts and Parliament ending in 1688 in the Bill of Rights, which gave Parliament full power to levy taxes and to authorize public expenditures Popular control of all financial operations of the government through legislative assemblies spread rapidly to other countries, and some form of budgetary procedure was adopted

Essentials of a Budget. The budget is a financial program of the government It is about the only means of co-ordinating state expenditures and state revenue and keeping them in balance The budget is usually drafted under the supervision of the chief executive. In practice, the entire budgetary procedure breaks itself into (1) the preparation of estimates of expenditures and revenues and a comparative statement of the financial conditions of the state before and after its proposals are put into effect, (2) the legislative enactments necessary to provide for the expenditures and the funds to meet these outlays, and (3) the execution in the opening

of the accounts and the auditing and administering of them in accordance with their legal authorization.

The budget is not intended to present the complete financial status of the state at any particular time. It does not show the total assets and liabilities of the state. It contains only the current income and expenditures of the government for a specified period of time and a program for raising revenue. The period of the budget, usually called the fiscal year, rarely extends over a longer time than twelve months. A shorter period would not only increase the difficulty of forecasting future fiscal conditions, but it would lessen the control of the legislative branch over state expenditures and taxation and over policies of deficit financing. The time of the year when the fiscal period of a government begins is entirely a matter of convenience. In the United States, the new budget takes effect annually on July 1,[1] while in England, since 1854, it has been the first of April of each year.

The question of whether or not the budget becomes a law when it is approved by the legislative body has been much discussed in political circles. That it is not a law, except as specifically provided in its enactment, is the agreed opinion of political scientists. If it were a statute, it would be necessary for it to follow the usual parliamentary routine before the legislative body and to be signed subsequently by the chief executive. Instead the budget is a report on the financial state of the government by the chief executive to the legislative body The chief executive asks the fund-raising and fund-granting body for authorization to make the specified expenditures and to collect the required revenue as contained in the budget. Within certain constitutional limits, it is the right of the legislative branch to withhold or to authorize budget requests as they come before it for consideration. This power of legislative control over the budget will be discussed more fully at a later point in this chapter.

The British Budget. The experience of England, as well as many other countries in Europe, in budget making greatly antedates that of the United States. Therefore, it is desirable to discuss briefly the budgetary systems of a few of these countries before presenting the fiscal practices now in use in the United States.

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[1]From 1789 to 1842 the fiscal year in the United States ended December 31, from 1844 to date, on June 30.

The British Treasury is entirely an administrative body. It is head of the fiscal activities of the British government. Any proposals that involve expenditures of public funds, together with full explanation, must first be submitted to it for approval. About October 1 of each year, the British Treasury requests the various departments of the government to submit a complete itemized list of all proposed expenditures for the next fiscal period, which begins on the first day of April. The estimate clerk of the Treasury checks each item against its authorization and makes comparison with similar expenditures for previous years. Because of an emergency, the expenditure for some function may have been temporarily increased. In such case, care must be taken that is it not continued after it is no longer necessary. On the other hand, insufficient funds may have been requested, which, if not increased, might seriously embarrass the functions of the department. The Treasury, therefore, is not only interested in the economical use of public funds, but is also concerned with the efficiency of operation of the various departments of government. These estimates, when approved by the Treasury, are then laid in detail before the financial secretary and Chancellor of the Exchequer for further consideration.

In order that the Chancellor of the Exchequer may strike a balance of estimated surplus or deficit, he turns to the revenue department for a statement on the probable income for the next fiscal year. After all these data have been properly assembled and analyzed, the Chancellor of the Exchequer is in a position to lay a draft of the budget before the Cabinet and, with the latter's approval, to unfold before the House of Commons the various measures proposed to meet the financial needs of the nation during the following fiscal year. This estimated expenditure must accord rather closely with the actual outlay during the ensuing year, or be explained very completely, subject to close questioning by the House members. Any substantial variation between estimated expenditures and actual outlays not anticipated in the budget is regarded as evidence of poor financial statesmanship by the group responsible for its execution.

In England, the budget is not presented to the House of Commons as one bill, instead, each item is explained separately in a speech by the Chancellor of the Exchequer as he lays it before this body for action on what is called the "budget day." To consider

the budget in detail, the House of Commons creates two financial committees, designated as the Committee of Supply and the Committee of the Whole House. These committees sit under their own chairmen instead of the Speaker of the House. In his budget speech before the House of Commons, the Chancellor of the Exchequer takes the opportunity to consider the financial situation of the country, as disclosed by receipts and expenditures of the previous year, gives reasons for any appreciable variation between estimates and results during this time, explains any changes in the national debt, states the financial forecast for the current fiscal period, and discloses his plans for balancing the account The Chancellor of the Exchequer may be questioned by any member of the House of Commons during the course of his speech about any item in his budget. He may even be recalled later to give any additional explanation or information that the House of Commons may require.

Upon receipt of the budget, the House of Commons immediately refers it to the Committee of Supply, which may reduce or reject any proposed expenditure, but it may not increase the budget or annex a condition to it or alter its purpose. If it is necessary to increase the proposed expenditure, the budget must be referred back to the Chancellor of the Exchequer for re-examination and be replaced by a new or supplementary estimate if in his judgment the amount should be raised. When the Committee of Supply has approved an item in the budget, it reports this fact to the House of Commons where the item is again subjected to debate If the House of Commons agrees with this recommendation, the estimate goes to the Committee on Ways and Means whose task is to approve the provision of the necessary funds

The English budget does not become a legalized plan until the Committee on Ways and Means has approved each expenditure, and a fund bill has been passed by the House of Commons There are many items of expenditure presented for approval, and each is legalized by an accompanying fund bill At the end of the session, when all the expenditures have been duly approved, a fiscal Consolidated Fund Act is passed that completes the legalization of the entire budget By means of a Finance Act, the Committee of Ways and Means also makes provision for all sources of income and for changes in taxation For the most part, taxes rest upon continuing statutes and usually need only casual considera-

tion each year In order to allow for elasticity of revenue, however, a direct tax on income and an indirect levy on tea are voted annually. But the great financial demands of World Wars I and II, especially the latter, have greatly changed this long established procedure During recent years, the English have greatly broadened their tax structure and rates upon every source of income.

In 1918, an Estimates Committee was first appointed consisting of fifteen members drawn from all parts of the House of Commons This Committee, as the name implies, scrutinizes any estimate that it wishes and sends for persons, papers, and records to aid it in its investigations. This Committee has only advisory powers. This limitation has practically emasculated the committee's operations, although it continues to function in a limited manner.

The finance and consolidated fund bills are sent to the House of Lords with a certificate by the speaker that they are money measures If the House of Lords fails to act upon these bills, they may be presented to His Majesty, the King of England, and become an Act of Parliament on royal assent. Actually a dissent of the House of Lords operates only as a slight check on the adoption of the budget The House of Commons has almost complete control over the authorization of expenditures and revenues and over the adoption of a general program of taxation

The final step in the English budgetary process is the execution of the budget Again the House of Commons is in control The collection of revenue and expenditure of the funds are in the hands of public officials whose operations are subject to the control and audit of the House The Comptroller and Auditor-General is appointed by the Crown and is therefore independent of any department of the British government. He is required to make a test audit of the revenue receipts, to audit the accounts of expenditures of each department, and to report any irregularities to Parliament He must see that any surplus is transferred to the national debt commissioners for the sinking fund. It is his duty to authorize all payments of money out of the exchequer and to take care that no issues are made without parliamentary authority His annual report is laid before the House where it is referred to the Public Accounts Committee. This Committee summons the accounting officers and officials of the Treasury and of other departments for such explanations as it may desire This Com-

mittee finally reports its deliberations to the House of Commons Any recommendations made by the Public Accounts Committee are communicated to the Treasury for its consideration

Budgets of Other Countries. The budgetary systems of other countries present certain variations of procedure peculiar to the nation in question. Only unusual characteristics will be considered

The Australian budgetary system follows closely that of the English. The budget estimates are presented concurrently to the House of Representatives and to the Senate Government receipts and expenditures are shown in three distinct funds (a) consolidated revenue, (b) loans, and (c) trust funds The consolidated revenue consists of all cash receipts that constitute a net or real income to the commonwealth. The loan fund contains all receipts from public borrowings. The trust account shows all incomes from estates that are administered by the Government of Australia outside the annual budget, such as the invalid and old-age pension benefits. The Australian fiscal year closes annually on June 30, and the new one begins on July 1.

Canada has followed the example of Great Britain and the United States in adopting the cash, instead of the accrual, basis upon which the public accounts are rendered A consolidated revenue fund is provided, which constitutes all the public money and revenue that the Parliament of Canada has the power to appropriate. Any unexpended balances of appropriations not spent at the end of the fiscal year lapse, and a revote by the Canadian Parliament is necessary if such sum is to remain available for later disbursement

The fiscal practice of Canada is particularly outstanding in that it attempts to make a distinction between capital and revenue expenditures. This distinction is regarded as one of the merits of the Canadian fiscal administration, although much of the advantage of this separation has been lost because the government has failed to carry it out in practice This failure is due partly to the difficulty in defining capital expenditures, and partly to the fact that this distinction is often unjustly used to conceal the real trend of government outlays

In case of certain emergencies, Canadian law provides for expenditures, without legislative sanction, upon the Governor General's warrants. This privilege has been exercised upon a few occasions, but it has never been abused. This provision lends a certain amount of flexibility to the Canadian fiscal system.

In Canada each department head and officer must submit to the Minister of Finance an itemized statement of his needs for the next fiscal year, which is later compiled into a book of estimates After due consideration they are submitted to the Canadian Cabinet, and finally to the Canadian Parliament for action. The control that may be exercised by the Canadian Ministry of Finance over the budget is not nearly as complete as in Great Britain The budget is rigidly examined in Parliament, and a vote is cast upon certain items or upon lump-sum appropriations.

The Canadian budgetary system is unique in regard to the extensive control that it exercises over public expenditures. The incumbent in charge of this important function of control is appointed by the Governor General "for the more complete examination of the public accounts of Canada, and for reporting thereon to the House of Commons." He holds office during good behavior, subject only to removal by the Governor General on address to the Senate and the House of Commons

The budget of France consists of several documents:

(1) The general budget To this document is appended certain estimated expenditures for the national printing office, the gunpowder service, the posts, telegraph and telephone, the mint, the railways and state factories of Alsace-Lorraine, the state railways, the national savings banks, the naval invalidity fund, and other special establishments.

(2) Debt redemption fund

(3) Accounts of autonomous offices attached to various departments

(4) Special treasury accounts, of which the chief divisions are expenditures on state railways, interest on advances by the Bank of France, reduction of amounts advanced by the Bank of France, payments of debt services to Great Britain and to the United States, and loans to foreign governments These foreign payments have been suspended, although the budget procedure continues to provide for them

Each department prepares its own estimates and submits them to the Minister of Finance. The financial year begins on the first day of January All revenues and expenditures are authorized only for the fiscal period of twelve months In French law, provisions are made for certain permanent taxes The Chamber of Deputies at all times is left in complete control of revenue sources.

The ministers are forbidden to incur liabilities, or to make payments, for purposes not specified in the budget. The head official is held personally liable for any breach of financial regularity if he overspends the credits granted him or if he enters into any agreements that extend beyond the fiscal year

The completed budget is finally sent to the Chamber of Deputies, where it is referred immediately to the Finance Committee for hearings and rigorous scrutiny It is sent next to the Senate where it again goes through the same routine, and any differences between the two houses in regard to expenditures and revenue are settled by joint conferences. Each Chamber had its own set of committees to examine and audit the budget accounts

Development of the Budget in the United States. Until about 1921, there was no generally organized budgeting done in the United States. No provisions existed in the federal government for the formulation by any one agency of a single consolidated statement of the prospective revenues and estimated expenditures Until 1921, the Secretary of the Treasury prepared what was called a book of estimates of all executive departments, which was submitted by him to the House of Representatives This requirement made it possible for the Secretary of the Treasury to deal with Congress without going through the Office of the Chief Executive. This book of estimates was about the only intelligent guide the Congress had in determining the policies that should be adopted by it with respect to the increase or decrease of taxes, formulating a policy of expenditures, the incurring or extinguishing of the debt, and the voting of funds for the conduct of federal affairs. At that time, no attempt was made to consider at one time and in one document the whole problem of financing the government. Expenditures were not examined in relation to revenues

The estimates of appropriations were prepared by the various bureaus of each department independently of each other and were more or less without the supervision of the department itself. Often, without modification, they were transmitted to the Secretary of the Treasury, where, without revision or control or without co-ordination between bureaus or departments, they were subjected to the mechanical and mathematical practice of being assembled, printed, and presented to Congress.

Neither by legislation nor by practice was the President himself recognized as having any responsibility for the formula-

tion of the general financial program of the federal government. He exercised little or no authority over the control or co-ordination of estimates Congress, therefore, had no means of knowing, and cared little, whether or not the requests for appropriations submitted by the service heads through the Treasury Department met with the President's approval. There was no budget message by the President of the United States, no summary, no analytical and comparative tables, and no attempt at a balance sheet of income and expenditures. The result was that Congress received from no responsible official anything partaking of the nature of a general financial program in which estimates of expenditure needs were considered in their relation to each other, and in which their relative as well as absolute merits and urgency were considered from the standpoint of the financial condition and requirements of the government as a whole

The Senate received a copy of these estimates; but, according to the Constitution of the United States, it was not supposed to consider government expenditures and revenues until after the House had acted, although this old practice has about disappeared. (These fiscal matters including the annual budget are now considered concurrently by both branches of Congress.) The proposed expenditures were not binding, and Congress could either raise or lower any item at its discretion, or even eliminate it entirely from the schedule New expenditures could be initiated by the House of Representatives for any particular purpose, which was usually done by a special bill It was therefore the duty of Congress to determine and to vote annually the appropriations necessary to cover the expenditures of the various departments and independent establishments of the federal government Until as late as 1921, the budgetary procedure in Congress was quite cumbersome and inefficient. Appropriation proposals were reported by fourteen independent committees in the House and by fifteen in the Senate. These bodies worked without any particular co-ordination. The appropriations were frequently inflated by "pork barrel" and "log rolling" methods Another set of independent committees in each branch of Congress prepared the revenue bills

The main defects in this early congressional procedure may be summarized as follows:

1. Neither house of Congress had before it at one time a unified legislative program of estimated receipts and expenditures for the fiscal year in question.

2. General appropriation bills for the different departments were distributed among distinct committees in each house, each acting independently of the others.

3. Each bill was separately considered by the two houses without relation to other proposed appropriation bills.

4. No committee or member of either house was charged with, or felt the responsibility for, the correlation of proposed appropriation bills

5. In no case were all the expenditure needs of a given department considered by a single committee or provided by a single appropriation bill.

6. General legislative bills, carrying appropriations for putting them into effect, were handled by committees other than the one that had in charge the appropriation bill for the department.

7. No procedure was in effect for consideration of relative merits of the demands upon the Treasury or to prevent duplication of activities.

8 Appropriations denied by one committee were sometimes successfully requested from another committee of the House of Representatives; or, if totally rejected by the House of Representatives, the request might find approval in the Senate

9 Appropriation bills were separately considered, often months apart, and members were not able to study at one time the whole problem of financing even a single department, much less the entire government Usually not until the last days of a session was it possible to know the total of appropiations made, which was too late to compare them with prospective revenues

The agitation in the country for the adoption of a budget did not really get under way until after the turn of the twentieth century. In the meantime, the New York Bureau of Municipal Research made a thorough study of government financial administration and recommended the adoption of a budgetary procedure. About that time, William Howard Taft, then President of the United States, recognized the need of a federal budget, and presented the entire matter to Congress in a lengthy report together with his recommendations. But his efforts were without success, because at that time the political complexion of the country was rapidly turning against him, and Congress ignored his recommendation. Nevertheless, he appointed a committee on economy and efficiency which later approved his general idea and strongly

recommended that a budgetary and accounting system be adopted for the United States.

The states were not slow to act. In 1911 California and Wisconsin adopted budgets. So rapidly did this government reform take hold that by 1916 almost every state in the Union had some kind of budgetary law on its statue books. At present, all the municipalities of the United States, as well as the states and the federal government, have adopted budgetary systems.

The Federal Budget Act of 1921. The first legislative attempt by Congress to establish a federal budget was in 1920, but that bill was vetoed by President Wilson because it provided that certain officials, chiefly the director of the budget, could not be removed for cause by the chief executive. Later, during the Harding administration, another bill was introduced in Congress, which became a law on June 10, 1921.[2] This law, known as the "Budgeting and Accounting Act, 1921," provides for a national budget system and, in Section 201, requires the President to transmit to Congress an annual budget of the estimated receipts and expenditures of the executive departments, together with certain other budgetary supporting data.

The Bureau of the Budget is divided into five main divisions (1) Division of Estimates, which occupies itself with the formulation of estimates of appropriations to be recommended to the President for his submission to Congress as the federal government's annual work plan, determination of agency personnel requirements, and continuous review of obligation and expenditure of appropriated funds; (2) Division of Legislative Reference, which provides co-ordination and clearance, in relation to the President's program, of agency reviews on proposed legislation, enactments coming up for the President's signature, and executive orders and proclamations; (3) Divisions of Administrative Management, which concerns itself with preparation and execution of plans for improving the organization, management and operating methods of the federal government, dissemination and exchange among the federal agencies of information conducive to this end, and consultative assistance to them; (4) Fiscal Division, which is charged with analysis of fiscal problems having a bearing upon the work of the Bureau, including recommendations for the federal government's fiscal policy, preparation of tabular materials for the

[2] U. S Stat. at L., 67 Cong. 1921 to 1923, chap 18, p 20

budget document, and the elaboration of the financial reporting system to perfect it as a means of budgetary control, (5) Division of Statistics Standards, which is engaged in planning and promoting the improvement and co-ordination of statistical information and statistical and report-collecting services in and for the federal government, including control over agency information demands to be made on the public.

The budget is submitted by the President to the Congress of the United States when it convenes, which now occurs, pursuant to the Twentieth Amendment of the Constitution, early in January of each year. The President, by the budget and in his budget speech, advises the Congress of his estimate of the amount of money that he believes should be appropriated for the maintenance of the government for the next fiscal year, the period beginning on the first of July following and ending on June 30 of the succeeding calendar year. The Congress has, therefore, a period of six months, if it does not adjourn prior to that time, for the consideration of the budget presented by the President before the executive departments will actually need the funds recommended.

The compilation of the estimated expenditures to be included in the budget actually begins with the preparation by the various executive departments and establishments of their own estimates of the amounts required for the ensuing fiscal year The fiscal year is the calendar year in which it ends, the fiscal year 1949, for example, being the period from July 1, 1948, to June 30, 1949. The estimates, upon compilation by the budget officer of each department and reviewed by the head of each department, are submitted to the Bureau of the Budget on or before September 15 of each year. In order to have his estimates completed by September 15, the departmental budget officer must begin his work at least two or three months prior thereto. He is thus required to estimate the expenses of his department for a period beginning one year later and actually ending almost two years thereafter.

During the period from September 15 to December 31, the Bureau of the Budget must review for the President the estimates submitted by the departments, arranging for and holding hearings with each department for an examination of the justification or necessity of the funds requested Upon conclusion of the hearings on the estimates of a department, a table is prepared showing for each appropriation item:

1. The actual expenditures of the preceding fiscal year;
2. The amount appropriated for the fiscal year in progress;
3. The amount estimated by the department for the next fiscal year,
4. The amount tentatively recommended by the Bureau of the Budget;
5. The budget increase or decrease compared with the current fiscal year appropriation, and the reasons therefor.

With this table before him, the President examines, with the Director of the Bureau of the Budget, by departments, each estimate of appropriation and determines the amount to be recommended by him for appropriation by Congress. Upon advice as to the amounts approved by the President, each department revises its estimates and makes the schedules of proposed expenditure conform thereto. The estimates, as thus revised, comprise the budget for that fiscal year.

The budget, therefore, that the President transmits to Congress on the first day of each regular session, through the Bureau of the Budget, sets forth in summary and detail as prescribed by Section 201 of the Act:[3]

(a) estimates of the expenditures and the appropriations necessary, in his judgment, for the support of the departments and agencies of the government;

(b) estimates submitted by the Supreme Court and the Congress of the United States which shall be transmitted to the President on or before October 15 of each year but shall be included by him in the budget without revision;

(c) estimates of the receipts of the government during the ensuing fiscal year, (1) under laws existing at the time the budget is transmitted and (2) under the revenue proposals, if any, contained in the budget,

(d) expenditures and receipts of the government during the last completed fiscal year;

(e) estimates of the expenditures and receipts of the government during the fiscal year in progress,

(f) the amount of annual, permanent, or other appropriations, including balances of appropriations for prior fiscal years, available for expenditures during the fiscal year in progress, as of November 1 of such year,

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[3]*Op cit.*, Sec. 201.

(g) balanced statements of (1) the condition of the treasury at the end of the last completed fiscal year, (2) the estimated condition of the treasury at the end of the fiscal year in progress, and (3) the estimated condition of the treasury at the end of the ensuing fiscal year if the financial proposals contained in the budget are adopted;

(h) all essential facts regarding the bonded and other indebtedness of the government; and

(i) such other financial statements and supporting data as in the President's opinion are necessary or desirable in order to make known in all practicable detail the financial condition of the government

The Budget and Accounting Act of 1921 also imposes upon the President the obligation of recommending new taxes, loans, and other forms of income, if the budget indicates an excess of expenditures over total revenue, or any other appropriate action to meet the estimated deficiency On the other hand, if the budget indicates a net surplus of revenue over expenditures for the ensuing fiscal year, the President shall make such recommendations as, in his opinion, the public interests require

In case the President finds it necessary to transmit to Congress supplemental or deficiency estimates, he may do so when, in his judgment, such requests are necessary because of laws enacted subsequent to the transmission of the budget, or when, in his judgment, they are otherwise in the public interest. In submitting such estimates, however, the President shall also include a complete statement that explains why he is making such special requests and also why they were not included in the regular budget

When the President asks for a lump-sum appropriation, either in the budget or by special request, the law provides that his estimate shall be accompanied by a statement that shows in detail the specific purposes for which the money is to be spent and the amount similarly used during the last completed fiscal year

The law of 1921 creates a Bureau of the Budget which was placed originally in the Treasury Department, although left under the direct supervision and control of the President Under the government reorganization plan of July, 1939, the Bureau of the Budget was transferred by proclamation of the President to the Executive Department.

The handling of all details respecting estimates of governmental expenditures are under the immediate charge of a Director and an Assistant Director of the Budget who, because of their direct responsibility to the chief executive, are appointed by the President, without the advice and consent of the Senate. The Director, when so requested by the President, shall make a detailed study of the departments and establishments for the purpose of enabling the chief executive to determine what changes should be made to secure greater economy and efficiency in (1) their existing organization, activities, and methods of doing business, (2) the appropriation therefor, (3) the assignment of particular activities, or (4) the regrouping of services The President may embody these findings in a special report to Congress, and make such recommendations as, in his judgment, may seem proper. The effect, if any, of recent reorganization measures is to concentrate the control of the budget in the hands of the President to a greater extent

Duties of Comptroller-General. The Budget Act of 1921 creates an establishment of the government to be known as the General Accounting Office. This Office is independent of the Executive Establishment and under the immediate control of the Comptroller General of the United States. The Comptroller General and his assistant are appointed for a term of fifteen years by the President with the advice and consent of the Senate The office of comptroller carries with it certain executive and discretionary powers in regard to the fiscal operations of the federal government, especially with respect to expenditures by the various spending agents.

Section 312 of the Budget Act of 1921 states the duties of the Comptroller General as follows:

(a) The Comptroller General shall investigate, at the seat of the government, or elsewhere, all matters relating to the receipt, disbursement, and application of public funds, and shall make to the President, when requested by him, and to Congress, at the beginning of each regular session, a report in writing of the work of the General Accounting Office, containing recommendations concerning the legislation he may deem necessary to facilitate the prompt and accurate rendition and settlement of accounts and concerning such other matters relating to the receipt, disbursement, and application of public funds as he may think advisable.

In such regular report, or in special reports at any time when Congress is in session, he shall make recommendations looking to greater economy and efficiency in public expenditures.

(b) He shall make such investigations and reports as shall be requested by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures The Comptroller General shall, at the request of any such committee, direct assistants from his office to furnish the committee with such aid and information as it may request

(c) The Comptroller General is required to report to Congress any expenditure or contract made by any department or establishment in any year that is in violation of law.

(d) He shall submit to Congress reports upon the adequacy and effectiveness of the administrative examination of accounts and claims in the respective departments and establishments and upon the adequacy and effectiveness of department inspection of the offices and accounts of fiscal officers.

(e) He shall furnish such information relating to expenditures and accounting to the Bureau of the Budget as it may request from time to time

Budgetary Authority and Procedure. There are three general methods of procedure by which the budget may be prepared and finally submitted to the legislative branch for authorization In the first method, the work is handled by an independent executive board or committee This method is the least desirable of all types, because it places important fiscal functions of government in the hands of a group who do not assume responsibility for the results. This procedure is neither satisfactory nor efficient and, with few exceptions, has been abandoned by all governmental units

Little more can be said in behalf of the second, or legislative, method of budget making, although this procedure has been widely used and is still to be found in a few units of government, especially among the states and local units Until 1921, the federal budget was largely prepared by Congress, and, to a great extent, states and municipalities have left to their respective legislative branches the duty of preparing the estimates of expenditures and revenues The legislative method of preparing the budget is very unsatisfactory because it has always led to extravagance in expenditures and appropriations It is therefore rarely found among the governments of the world today.

At present, the third and most widely used method of making the budget is by the chief executive, whether he be President of the country, governor of a state, or mayor of a city. In case of the federal budget of the United States, the entire procedure is performed by a director under the direct supervision of the President. Budget making is really a function of the chief executive because it is primarily a record of his activities All data respecting expenditures and revenues of government are to be found in his department. It is also the responsibility of the chief executive to co-ordinate the various departments of the government and to see that they are operated in the most efficient manner The executive should also be held primarily responsible for the execution, as well as for the preparation, of the budget Because of the very nature of the budget, the President of the United States could not be expected to supervise all the details Of necessity, much of this work must be delegated to the director who collects and organizes a first draft of the data Only questions of fiscal policy and matters pertaining to final adjustments are referred to the Chief Executive for his consideration.

Preparation of Federal Budget.[4] As has already been stated, the new fiscal year of the federal government, since 1844, begins annually on July 1 Prior to the fifteenth of September, some nine months before the next fiscal year begins, the head of every department and agency of the federal government is required to present to the Director of the Budget estimates of appropriations that will be needed during the twelve-months period beginning on the following July 1.

The Budget and Accounting Act of 1921 provides that the head of each government unit shall appoint a liaison officer whose duty shall be to prepare a detailed budget of expenditures for his particular department which represents what he considers to be the minimum needs of the work assigned to it by law The various liaison officers in the departments present these data to the Director of the Budget, who, in turn, sends the totals to the President of the United States Without examining the thousands of items in these estimates, the President immediately asks the Secretary of the Treasury for estimates of the total amount of tax receipts based upon the existing tax program that the government may

[4]Copies of the federal budget may be had through the Superintendent of Public Documents, Washington, D C

expect to receive during the next fiscal year, beginning some nine months later on July 1. The Treasury Department, upon which is focused all federal financial affairs, conducts a perpetual study of general economic conditions in the United States. Thus, the Treasury Department is always prepared to make an estimate as to the income receipts for the future. Such long-range forecasting, which may extend over a period of some twenty-one months, is, at best, only a rough estimate and sometimes is found to be in error.

If the forecast, as prepared by the Secretary of the Treasury, shows that the estimate of expenditures will exceed tax receipts, the President will instruct the Director of the Budget to confer with the various liaison officers of the departments in an effort to reduce departmental requests.

During the months of November and December, the Director of the Budget reorganizes all these data, holds conferences with liaison officers of each department, and again presents the estimates to the President with his recommendations. The President again asks the Secretary of the Treasury for an estimate of expected revenue for the next fiscal period, beginning July 1. If the new report shows a probable deficit, he makes every effort, with the assistance of the Director of the Budget, to secure further reductions before he finally approves the expenditures and sends the budget to the printer for presentation to Congress.

The President and the Director of the Budget are not free to pare expenditures of the various departments at their own discretion. By certain laws, the President and the Director are, in effect, prohibited from eliminating government functions or curtailing them to the point of ineffectiveness The President and the Director attempt to arrive at a figure for each department and agency that they believe to be the proper amount under which the function required by law can be carried out with reasonable efficiency. It is for these reasons that the Director of the Budget therefore occupies a very important place in the administration of the federal government.

Some time during the last two weeks of December, the President again obtains from the Secretary of the Treasury a final estimate of tax receipts for the fiscal year that begins some six months later Since tax revenues from practically every major source depend on the prosperity of business, the Secretary of the

Treasury's forecast is really founded upon a study of future economic conditions of the country.

A distinction should be drawn as to the relative flexibility of of business and government budgets. In this respect, business concerns are more fortunate. They also lay out budgetary programs, which may extend over months and even a year and a half in the future, but they may still be subject to wide change and variation They are controlled currently by the conditions of business, which permit the making of changes as they are required. The affairs of government are not so flexible The budget reports are the administration's fiscal plan In the form as adopted by Congress the budget, to all intents and purposes, becomes a fixed program of expenditures. Its estimates cannot be changed for months, even though economic conditions undergo radical alteration in the meantime

Limitations on Executive's Action. It has already been stated that the President, acting through the Director of the Budget, is limited in his control over the budget. In the first place, a budget is not a law, but a report or recommendation by the President of the United States to Congress in regard to the general financial state of the Union and the fiscal requirements of the government for the year beginning on the following July 1. In the budget, the President is asking authorization of Congress to spend a specified amount of money for certain definite purposes. He requests this legislative body to provide by law the necessary funds. Within its discretion, the Congress of the United States is entirely free to raise or to lower any estimate contained in the budget, or even to eliminate any proposed item of expenditure. The Congress is not even restricted to the budget as submitted by the President, but, upon its own initiative, this body may propose new expenditures that in its wisdom it may deem necessary. In other words, Congress could still write its own budget. By refusing to provide the necessary funds, Congress may, in effect, abolish an arm of the government. Through the purse, the Congress exercises plenary control over the general offices of the government.

The President has little or no statutory or constitutional control over expenditures that are made by the Legislative and Judiciary establishments. He, or his subordinates, may not even appear before Congress to explain or to plead for any item in the budget, unless invited by that body, except through the expedient

of regular or special presidential message. While each of these divisions of government submits annually an itemized list of expenditures to the President for inclusion in the general budget, he cannot make any alteration in any amounts as provided by law; they must be included in the budget without change. The reason for this restriction is obvious The Legislative and Judiciary Establishments are co-ordinate with, and not subordinate to, the Executive Establishment. Any other system would destroy that interdependence among the three divisions of government and the check and balance of power that the Constitution of the United States provides

A large part of the total annual expenditures of the federal government is provided by law, either by statute or by the Constitution [5] Such expenditures are fixed charges and cannot be changed by executive action Provision for them is obligatory on the President and Secretary of the Treasury. These expenditures include interest on the public debt and certain statutory debt retirements, salaries of certain officials, military and naval pensions, contributions to retirement funds and to the old-age reserve accounts, and money grants in aid to the states.

Another class of expenditures that, though subject to some measure of administrative control, do not afford opportunity for large reductions, is made up of those outlays which carry on the normal everyday operations of government For example, the major part of the appropriations for the State Department is required to pay the reasonable salaries of consuls, diplomatic agents, secretarial staffs, and ministers who represent American interests in every part of the world.

The third type of expenditure includes outlays by government for the economic security of large groups of citizens, who, for various reasons, require some form of state assistance This includes aid to farmers and homeowners, work relief for needy, able-bodied unemployed, old-age pensions, unemployment insurance, and other assistance under the social security program Obligations such as these, though large in amount, may be reduced only by depriving a substantial proportion of the population of benefits that modern civilization now demands.

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[5] The United States Constitution provides that certain emoluments cannot be changed during the term of office of the incumbent

Another category of expenditure includes those outlays for capital improvements, such as new highways, river and harbor projects, and new public works. These items may, however, be contracted or expanded to correlate with general business conditions.

Organization and Analysis of the Budget. The budget of the United States is a highly organized document. It is drafted according to a definite plan. In the budget of 1944, for instance, the first part contains the President's message to Congress This includes pertinent facts relative to the financial state of the Union, a brief comparative statement of estimated expenditures and revenues for the current year with those of prior fiscal periods. It may include specific recommendations in regard to change of budgetary procedure. These can be made only by the enactment of a statute or by constitutional amendment. The second part contains the general budget summary and supporting schedules, which include receipts and expenditures, funds appropriated, allocated and expended for relief, a general fund balance, the public debt of the United States, and contingent liabilities.

In parts three and four of the federal budget may be found estimates of revenue, receipts, appropriations, and expenditures, respectively, with a brief analysis of each Part five contains the estimates of appropriations in detail of all the departments and agencies of the federal government Part six provides for certain annexed budgets, such as the Post Office Department, the Reconstruction Finance Corporation, the Tennessee Valley Authority, and the District of Columbia The last part contains informational tables, sometimes known as supporting data, that are of value in interpretation and explanation of the foregoing divisions.[6]

The analysis of the federal budget is a task of no mean proportion for the student of public finance Among other facts, one must know (1) the major activities of the federal government, such as legislative, executive, and judiciary, together with the expenditures for each; (2) the objects for which public funds are spent, such as education, developmental and commercial aids, research, health, relief, penal and eleemosynary institutions, (3) the amount spent for war as compared to the outlay for other purposes, (4) the cost of the various agencies listed under the executive, and (5) a

[6]This is the general plan as now used in the *Budget of the United States Government for Fiscal Year Ending June 30, 1945*

complete list of all sources of federal income, together with an economic and legal analysis of each.

The next chapter will deal especially with the authorization and execution of the federal budget

Summary. Government budgeting is a catalog of proposed expenditures, sources of revenues and of debt management for the next fiscal year. The modern budget is usually prepared by the chief executive, or under his direct supervision, and is submitted to Congress for its approval.

Budgeting, in its modern sense, is of comparatively recent development. It seems to have come or been adopted into general use in England about 1763 when the annual statement of the plan of supplies and means was first called "opening the Budget." The present budgetary system of the federal government really developed out of the Budgeting and Accounting Act of 1921. Since that time, all the states, cities and local units have developed more or less highly organized budgetary systems.

The budget covers the proposed expenditures for a definite period of time, usually one year, called a fiscal year. This period of one year is not so long as to remove its administration from the control of Congress and yet long enough to include a complete round of the taxpayer's income

The complete cycle of federal budgetary procedure for a given fiscal period involves three principal steps: The first step is its preparation which includes the collection of all estimated expenditures for the next fiscal year, the arranging of these details according to establishments, bureaus, departments and functions and bringing the estimated total of outlay in balance with the estimated total income The second step is laying the printed document before the Congress of the United States for adoption, rejection, or modification Congress has the constitutional power to raise, to lower, to abolish or to include almost any item or items it wishes The third step is the administration of the budget by the Chief Executive in accordance with the law as prescribed by Congress

The Budgeting and Accounting Act passed by Congress in 1921 provides for an executive type of budget. It authorizes the President of the United States, through a Director of the Budget, to prepare and to submit the budget to Congress at its first session each year about the first of January. This Act also provides for a Comptroller of the United States whose duty is to examine into

the manner and legality with which the budget has been executed.

The President, through the Director of the Budget, has only a limited control over the budget He must enter in the budget all proposed expenditures for the next fiscal year submitted to him by the United States Supreme Court or the Congress He cannot change the expenditures fixed by law of Congress or by the Constitution There are a few constitutional limitations on the power of Congress with respect to appropriations and taxation For example, Article II, paragraph 1, of the Constitution of the United States says, "The president shall, at stated times, receive for his services a compensation, which shall neither be increased nor diminished during the period for which he shall have been elected, and he shall not receive within that period any other emolument from the United States or any of them "

TEXT QUESTIONS

1. What is the origin of the word "budget"?
2. What is budgeting?
3. Was budgeting among the topics covered by Adam Smith in *The Wealth of Nations?*
4. In what way did the Magna Carta affect the fiscal policy of England?
5. What are the three divisions of budgetary procedure?
6. What is the legal status of the United States Budget?
7. What is the British Budgetary procedure?
8. Who controls the administration of the British Budget?
9. What special features distinguish the Canadian budget?
10. What documents comprise the French Budget?
11. What was the United States budgetary procedure prior to 1921?
12. What were some of its major defects?
13. What was the Federal Budget Act of 1921?
14. What is our present Budget preparation procedure?
15. What items are included in the President's Budget message to Congress?
16. What are the duties of the Comptroller?
17. What three methods of budget preparation procedure may be employed?
18. Are government budgets more flexible than business budgets? In what way?
19. Under what conditions can the executive branch of the government debate for budget proposals in Congress?
20. What are the three types of government expenditures?
21. What are the parts of the Budget?
22. What information is required to analyze the Budget?

23 What is the "cycle of budgetary procedure"?
24 What limitations are placed upon the power of the President with respect to the Budget?
25. What controls the taxation power of Congress?
26. What is an executive budget, a legislative budget?

RESEARCH TOPICS

1. Make a study of the budgeting history of your state How is the budget prepared and how is it referred to the legislature? How is it handled after it gets into the hands of the legislators? Does the state budget seem to be organized according to a definite plan?
2. Make a similar study of the budgetary history of the largest city in your state. What are said to be the principal defects of both the state and city budgetary plans? What suggestions have been made to eliminate or to mitigate these defects?

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CHAPTER 10

GOVERNMENT BUDGET: ITS AUTHORIZATION AND EXECUTION

Principally since 1921 when the Budget and Accounting Act was passed, the United States Government has developed an excellent budgetary system Except for the budgeting of capital expenditures, the general principles of its organization are about complete This system includes practically every item of proposed expenditure and revenue of the federal government for a particular fiscal year It also sets forth a general fiscal policy with respect to a taxation and borrowing program It may also provide for a program of debt management and economic control. The states, municipalities, and local units of government in this country have adopted universally some kind of budgetary system. In every case, the adoption of a budget has resulted in economy of operation and in efficiency of fiscal administration. It has led the way to many instances of government reorganization and, to a considerable extent, it has been responsible for the increased concentration of power in the central government. The adoption of the executive budget has given to the President through the Director of the Budget great power over the fiscal affairs of the federal government It has been responsible for bringing him in close contact with Congress.

After the budget has passed through the stage of its preparation and has been examined as to its legality and accuracy of detail, it must be submitted to and passed by Congress and, finally, executed by the chief executive according to law. The second and third steps in budgetary procedure are therefore its authorization by the fund-raising and fund-granting body and its execution according to law by the responsible administrative group. Even after the money has been spent, the accounts must be post-audited by the Comptroller General of the United States to ascertain if the funds have been disbursed in a legal manner. These, and other matters, will be discussed in this chapter

The President's Budget Message. The President of the United States has the constitutional right, as well as the duty, to appear before Congress from time to time, either in person or by his

written message, to present certain matters pertaining to the "state of the Union" together with his recommendations. Article II, paragraph 3, of the Constitution of the United States says, "He shall, from time to time, give to the Congress information of the state of the Union; and recommend to their consideration such measures as he shall judge necessary and expedient." The budget is therefore a very important public document. Congress, business, the country in general, and even nations abroad, await with great interest the message and the budget of the President, which is delivered annually to a joint session of the Congress shortly after it convenes in January.

Although the budget message deals primarily with the explanation of proposed public expenditures, it may also include certain references to the general economic, political, business, and international conditions of the country, together with suggestions and recommendations for their improvement. In a special message to Congress on April 4, 1938, President Roosevelt expressed grave apprehension in regard to the declining income of citizens, to the state of prosperity or to the lack of it, and to the specter of mounting unemployment. He said that "all the energies of Government and business must be directed to increasing the national income, to putting more people into private jobs; to giving security and the feeling of security to all people in all walks of life . In our rehabilitation of the banking structure and of agriculture, in our provisions for adequate and cheaper credit for all types of business, in our acceptance of national responsibility for unemployment relief, in our strengthening of the credit of the state and local governments, in our encouragement of housing, slum clearance, and home ownership, in our supervision of stock exchanges and public utility holding companies and the issuance of new securities, in our provisions for social security, an electorate of America wants no backward steps taken "

The budget message also includes references to deficits or surpluses, handling of the national debt, and recommendations in regard to necessary changes in the tax structure New sources of income and, perhaps, the modification or dropping of certain old taxes are suggested. Especially are the proposed expenditures for social purposes explained in detail. Congress must be informed in regard to the cause and nature of any new and sudden expenditures The President may make specific recommendations

upon such important questions as government economy and a program of economic recovery and general business rehabilitation. From time to time, as needs for funds arise that are not provided in the regular budget, requests for special appropriations are addressed by the President to the Speaker of the House of Representatives. These supplemental requests are assigned by the Speaker to the proper subcommittees for detailed study and drafting of the legislative bills. Each special request for additional funds is accompanied by a message from the President that explains in detail for what purpose the money is needed and also why it was not included in the regular budget.

Fiscal Machinery in Congress. The budgetary procedure in Congress is one of the best examples of the fiscal machinery of the federal government. This procedure is so little understood generally that it is important to set forth in some detail the legislative processes of Congress in the authorization of expenditures and of the raising of revenue. In this manner, the authorization and execution of the federal budget may be explained most effectively

Reference has been made to the defects in the legislative processes of dealing with appropriation estimates prior to 1921 As a necessary complement to the adoption of the Budget and Accounting Act, Congress revised fundamentally its own appropriating procedure, and the two houses of Congress were consequently reorganized for the handling of financial proposals so as to provide a system in harmony with the principles of centralizing responsibility and of considering the whole problem of financing the government at one time. This was done by vesting full jurisdiction in two committees in each house, one concerned with all expenditure proposals and the other with revenue and allied matters, which must act co-operatively at all times. For this dual responsibility, there was created in the House of Representatives the Committee on Appropriations and the Committee on Ways and Means and in the Senate the Committee on Appropriations and the Committee on Finance. This centering of appropriation control in the two respective committees does not give them the power to report bills containing any general legislation except in cases where the purpose of such legislation would be to reduce expenditure.

These Committees on Appropriations in both the House of Representatives and the Senate resolve themselves into sub-

committees, each consisting usually of seven members Inasmuch as the House Committee on Appropriations consists of 35 members and the Senate Committee of 23, it is necessary for each member to serve on more than one subcommittee Most Senate subcommittees also have sitting with them, as ex officio members, three members of the respective committees on general legislation dealing with the departments or services in the charge of that particular subcommittee. The names of the subcommittees are clearly indicative of the sections of the budget over which each has respective jurisdiction These committees are as follows:

Subcommittee on Department of Agriculture
Subcommittee on Interior Department
Subcommittee on Navy Department
Subcommittee on State, Justice, Commerce, and Labor Departments
Subcommittee on Treasury and Post Office Departments
Subcommittee on War Department
Subcommittee on Independent Offices
Subcommittee on the District of Columbia
Subcommittee on Legislative Establishment
Subcommittee on Deficiencies.

A brief presentation of the legislative sequence that is followed in the deliberations and final action upon the budget and upon various supplemental estimates of appropriations is important as it relates to fiscal machinery of the federal government. To a very considerable extent, states and municipalities with executive types of budgets also follow the budgetary procedure. Since the Senate does not enter upon the consideration of general appropriation bills until the House has acted, the procedure in the House will be considered first The Constitution requires that all bills for raising revenue shall originate in the House of Representatives,[1] although this has now become something of a formality.

As previously stated, the President transmits his budget, with his accompanying message, to the House of Representatives at the beginning of each regular session in January Both the budget and the message of transmittal are immediately referred by the Speaker of the House to the Committee on Appropriations. Upon its receipt, this Committee considers the budget in its general scope, and formulates in a more or less definite way its policy

[1]Article I, Section 7, of the Constitution of the United States.

with respect to procedure, taking into due consideration the recommendations of the President according to the provisions of the Legislative Reorganization Act of 1946, effective January 1, 1947. The Committee puts a ceiling on the total amount of appropriations for various purposes, which makes the document something of a "legislative budget." The budget is then divided into sections and each part is referred to the proper subcommittees for detailed consideration according to their assigned functions.

Each subcommittee holds extensive and prolonged hearings on its respective sections of the budget. At these hearings, heads of departments, bureau chiefs, and other responsible administrative officers are summoned and requested to explain the estimates that have been submitted These officials are required to present further facts, figures and other supplementary data to justify the appropriation of the amounts requested The estimates from each bureau or office are considered item by item, and are subjected to the scrutiny of the members of the subcommittee in great detail The bureau chief may be asked to give a complete and detailed statement or justification of his work program and may be closely cross-examined. The reasons for any changes, especially new items or increases of the old ones, from the amounts appropriated the preceding year will almost certainly be demanded in full detail inasmuch as the members of the subcommittee must in turn defend them on the floor of the House

After this testimony has been taken, the subcommittee studies the evidence and decides upon the amount of appropriations that should be allowed for each activity. In making these decisions, it applies the policy of limiting the total appropriations that were determined by the whole Committee on Appropriations. The subcommittee presents its recommendations in the form of a bill to the whole committee, which may make whatever changes it desires The bill is then reported to the House of Representatives. After it is passed by the House, it is sent to the Senate; however, in the meantime the Senate may have been considering the measure, although its final form is not available until the House has concluded its deliberations.

It has already been stated that the general appropriations as well as revenue bills originate in the House of Representatives and that not until the House has taken its action upon these bills does

he Senate enter upon its consideration The reason, other than old English precedent, for this practice is easily explained. Originally, the Senators were elected by the state legislatures and the members of the House of Representatives by a direct vote of the people. It was felt that, since the House members were direct representatives of the people, this body alone should have the sole charge of the purse. But when, by constitutional amendment,[2] the Senators were elected by a direct vote of the people, the Senate became as representative of the people as the House. Therefore, the old policy of dividing the responsibility of appropriations and expenditures between the House and Senate has almost disappeared, and all such fiscal matters may now be and usually are considered concurrently by both bodies, but the Senate does not conclude its deliberations until the House has acted.

When an appropriation bill is received by the Senate from the House, it is immediately referred to the Committee on Appropriations and, in turn, by that committee to the appropriate subcommittee for detailed study and hearings. The procedure in the Senate for handling proposed appropriations, expenditures, and sources of revenue is substantially the same as that in the House, and will therefore not be described again. As in the case of all legislation, an appropriation bill, after it has been passed by the two houses, must be approved by the President. If it is disapproved by him, the bill is returned to Congress where it may be repassed and made effective without the President's approval, provided it receives the necessary two-thirds affirmative vote in each of the two houses. It should be noted that the Chief Executive has no power to veto specific items in an appropriation bill He must either accept or reject the bill as a whole. This limitation in the veto power of the Executive has made it possible for Congress, by attaching riders to important bills, to force the President to accept particular finance or other measures that he might otherwise wish to reject. The President has sometimes rejected a general appropriation bill, calling attention to the fact that his disapproval is based upon objection to a specific item or items. This gives Congress the opportunity to repass the bill with little delay in a revised form that meets the President's objection. This has occurred particularly in the case of agricultural appropriation bills or to satisfy certain pressure groups that represent

[2] XVII Amendment to the Constitution of the United States.

powerful blocs in or out of Congress. President Roosevelt recommended that this defect in the budgetary procedure be corrected by constitutional amendment or, if possible, by appropriate legislation, to give the President the power of item veto now enjoyed by some state governors This change has not yet been made and the President does not have the power of item veto of an expenditure bill.

Revenue Legislation. The essence of an effective budget system is to concern itself not only with estimated expenditures, bringing them into direct comparison with expected revenues so as to reveal the excess or deficiency of estimated available income, but also to make recommendations of new sources of income and of such other financial measures as conditions may permit and the public interest may require. This particular step seems to be something for the executive to handle, especially where there is the executive type of budget

As has been stated, Section 201 (b) and (d) of the Budget and Accounting Act, 1921, prescribes directions for presenting revenue estimates Section 202 contains the following provisions

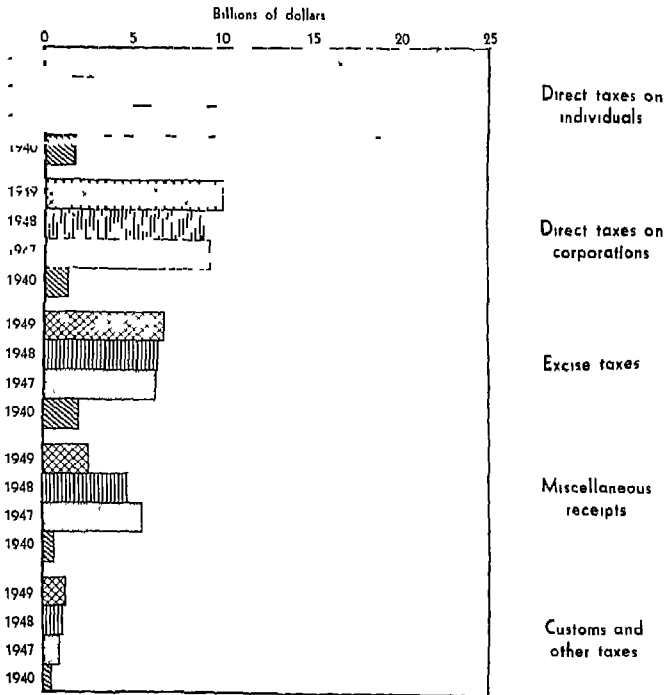
> (a) If the estimated receipts for the ensuing fiscal year contained in the Budget, on the basis of laws existing at the time the budget is transmitted, plus the estimated amounts in the Treasury at the close of the fiscal year in progress, are less than the estimated expenditures for the ensuing fiscal year contained in the Budget, the President in the Budget shall make recommendations to Congress for new taxes, loans, or other appropriate action to meet the estimated deficiency.
>
> (b) If the aggregate of such estimated receipts and such estimated amounts in the Treasury is greater than such estimated expenditures for the ensuing fiscal year, he shall make such recommendations as in his opinion the public interest requires.

Although the Budget and Accounting Act in theory directs that the budget include suggestions as to revenues, as a matter of practice the Secretary of the Treasury himself makes such recommendations to the President and through him to the Congress This practice was prescribed in an executive order of November 8, 1921, which, among other provisions, delegated to the Secretary of the Treasury the responsibility of making "suggestions and recommendations as to how the revenue needs of the Government may be met," and of advising such other financial legislation in the public interest as conditions would permit

The United States Government has three main sources of revenue.[3]

1 Internal revenues
2. Customs duties
3. Miscellaneous receipts

During ordinary times, internal revenues comprise about nine tenths of the total. These sources of income include excise taxes and taxes on incomes, on public carriers and their employees, on unjust enrichment, and for social security. Customs and duties produce only about one fifteenth of the whole. Miscellaneous receipts yield the balance or one thirtieth. The following chart shows the distribution of budgeted receipts by source.

BUDGETED RECEIPTS BY SOURCES FOR FOUR RECENT YEARS

[3]The student should refer to Page A 11, Table 6, Budget Receipts by sources, The Budget of the United States Government for the Fiscal Year Ending June 30, 1949, for a complete itemized account of the source of income, with estimated amounts, of the federal government.

In general, two types of revenue measures are available to Congress. One pertains to internal revenue and the other to customs or tariff duties. Numerous bills are introduced to tap these two main sources of income. An internal revenue bill, usually called the Revenue Code, although having regard for certain economic or social effects to be attained, is more directly and specifically the outcome of revenue needs, whereas the revenue feature of a tariff bill is of secondary importance only, its primary purpose being to guarantee the United States market to the home producer.

As soon as it is determined, upon advice of the Treasury Department through the President, that additional revenues are needed, the Ways and Means Committee of the House, created for the purpose of "ascertaining the ways and providing the means" by which to raise the revenues to run the government, publishes a definite statement regarding proposed internal revenue taxes and gives notice of public hearings to be held in connection therewith. This public statement may take the form of a tentative draft of a bill, of a committee report, or of a message from the President

When the revenue bill is finally drafted, it is introduced in the House by the chairman of the Ways and Means Committee and then referred back to this committee, where it is given such further consideration as may be necessary and then reported to the House with the committee's recommendations. When the measure has passed the House, it is sent to the Senate and is referred at once to the Committee on Finance where public hearings are again held, and the Treasury and Joint Committee experts are once more heard When the bill has been revised by the Committee on Finance, it is reported to the Senate, debated, probably amended further, and passed

Two revenue bills are usually in existence at the same time before each house of Congress, generally with a wide divergence as to rates, exemptions, and treatment of administrative provisions To compose these differences, conferees are appointed, usually consisting of three majority members and two minority members from each body. The conferees are permitted only to agree upon some point between the limits set by the two bills Their reports are considered by the Senate and the House, and, when adopted, the bill is then signed by the Vice-President and

the Speaker of the House and sent to the President for his approval or disapproval. This Act gives rise to a new Revenue Code with rates, exemptions, and other details in regard to the income of the federal government

House Committee Hearings on the Tariff. Proposed tariff legislation involves generally the various items of commerce of nearly every section of the country, and touches every kind of industry, mining, and agriculture, and every class of society. It therefore arouses keen and widespread interest. As a first step, the committee notifies the public at large that hearings will be held, beginning on a certain date When the hearings have been concluded, various subcommittees, consisting of three members of the majority party, enter upon the second stage in the process and prepare the legislation, schedule by schedule, finally bringing it together into a tentative whole After it has passed the House, it is sent to the Senate. When the bill passes the Senate, it is usually different in rates and in form from the House bill. It then goes to a conference committee After both houses agree on a compromise, the bill finally goes to the President for his signature

Tariff Making by the President. The discussion of the mechanics of enacting a tariff bill should not be closed without reference to the tariff-making power that Congress, in recent years, has lodged in the President The Tariff Acts of 1890, 1897, 1922, and 1930, and the amendment known as the Trade Agreement Act of 1934, place in the hands of the President, to a certain extent, the prerogative of tariff making

The Act of 1922 contained a provision that empowered the President, within certain limits, to change the duties upon commodities by proclamation This has come to be known as the "Flexible Tariff Provision" By its terms, when the President shall find that any duty specified in the act does not equalize the difference between foreign and domestic costs of production, he may so adjust the rates as to equalize this cost He may do this by altering the classification of the items in question, or by changing the basis of the assessment rate, or by making new rates of duty within certain limits

The Act of 1930 authorizes the President, when he discovers unfair practices affecting import trade that result in discrimination against the commerce of the United States, to declare and

proclaim new or additional duties if the public interest would be served. It also authorizes him, if the discrimination warrants it, to exclude articles in question from import into the United States [4] The Trade Agreement Act of 1934 empowers the President, when existing duties or other import restrictions unduly burden or restrict the foreign trade of the United States, to enter into "Foreign Trade Agreements" and, further, to proclaim such modifications of existing duties and other import restrictions as he may deem necessary to carry into effect these "Foreign Trade Agreements" That these agreements may be negotiated by the President without ratification by the Senate, as is required in the case of specifically named foreign treaties, and that he may by proclamation effect such other modifications as have been mentioned, account largely for the fact that Congress has not found it necessary to pass a tariff act since 1930

State Budgets. All the states in the Union have provisions for budgets (usually prepared on a biennial basis because that is as frequently as their legislatures meet) and follow to a remarkable degree the federal government procedure. Almost all of them are of the executive type, although in a few cases budgets are yet prepared by the legislature or by a commission Speaking of the executive type of budget, René Stourm said

> "Situated at the center of the government the Executive more than anybody else is in a position to feel the public needs and wishes, to appreciate their comparative merits, and accordingly to calculate, in the budget, a just appropriation which each of these needs and wishes deserves. Others may know certain details as well, possibly better than the Executive, but nobody can have so extensive and so impartial a view of the mass of these details and no one can comprise the conflicting interests with so much competence and precision "[5]

Also another authority says

> "Students of government are generally agreed that the governors should be vested with complete responsibility for the preparation of the budget The people look to him for leadership and in shaping of the state's fiscal policy leadership

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[4]For a discussion in regard to the constitutionality of this power conferred by Congress upon the President see Sternbach et al v United States et al, 143 U. S 649, 12 S Ct 495 (1892) and J W *Hampton, Jr, & Co v United States*, 276 U. S. 394, 48 S. Ct 348 (1928)

[5]*The Budget*, American Edition, translated by T Plazinski, (New York D. Appleton & Co, 1917), pp. 53-54

> is especially important The need for gubernatorial control was not clearly recognized at first, however, seven of the first twelve budget laws placed control in the legislature, or, more commonly, in a board. But shortly afterwards came a pronounced swing toward budget systems of the executive type."

The Governor of the state stands in this peculiar position and is, in almost every instance of the executive budget, made either head of the budget board or commission, or one of its ex officio members

A few states, including California, Louisiana, Maryland, Massachusetts, Nebraska, and West Virginia, provide for a budgetary procedure in their constitutions. The chief reason for inserting in the state constitution provisions respecting the budget is to remove them from the power of the legislature to alter or to abolish A good budget system requires a form of government that, to a considerable extent, is centralized under the chief executive In a few states, as in Illinois, the executive officer of each department is elected by popular vote Their constitutional position is co-ordinate with that of the governor of the state, and not subordinate to him. Formerly, each department head submitted his own list of expenditures without much supervision and control The result was that their financial administration was inefficient This fiscal defect has been corrected by creating a more highly centralized government under the direct control of the governor The heads of the state departments are still elective by the direct vote of the people, but their budgets have been centralized either in the governor or in a fiscal board created for that purpose

By statute, a Department of Finance was recently created in the state of Illinois, which has the power.[6]

(1) To prescribe and require installation of uniform accounting,

(2) To supervise and examine all state expenditures,

(3) To examine and approve, or disapprove, claims of the various state departments,

(4) To prepare for the governor estimates of state income and, not later than the first day of January, a budget of expenditures;

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[6]Smith-Hurd *Illinois Revised Statutes*. 1929, Chap 129, paragraph 36, p. 2751

(5) To investigate duplication of work of departments and the efficiency of their organization and administration, and to formulate plans for their better co-ordination

The director of finance is appointed by the Governor. He is required to receive a biennium estimate of expenditures from all the departments, offices, and institutions of the state, including the elective officers in the executive department, the University of Illinois, and the judiciary, from which to prepare the state budget. This biennium budget is necessary because the legislature meets only once every two years in Illinois. The director of finance may, at his discretion, make further inquiries and investigations as to any expenditures. He may approve, disapprove, or alter the estimates and submit to the governor in writing his complete budget of revenues and expenditures for the next biennium The governor transmits these estimates to the General Assembly for action. The Department of Finance constitutes an auditing body for all the spending agencies of the state

In the state of Maryland, the budget plan directs the governor to require estimates of expenditures from the different divisions of the government He may revise any of them, except those relating to the legislature, judiciary, and the public schools systems. The legislature of this state may not increase the proposed budgeted expenditures relating to the various divisions of government, except those of its own estimates and of the judiciary, but it may reduce all other proposed outlays, except certain constitutional limitations as to the public school system and salaries of officers for the terms for which they are appointed.

In certain other states, as in Massachusetts, the budget procedure is similar to that of Maryland, except that the legislature may make increases subject to the authority of the governor to veto individual items in appropriation bills. In Nebraska, the legislature may increase any particular provisions in the budget estimate of state expenditures by a three-fifths vote, without first submitting them to the governor for approval or veto. In Louisiana, the tax commission is the budget-making authority The governor of California is required to submit a budget plan to the legislature with a bill No appropriation to meet the expenses of any state department or agency may be passed without first securing the approval of the chief executive of the state, subject to overriding his veto by the legislature if he returns the

measure unsigned with his objections. The governor may reduce or eliminate items of expenditure, but the legislature may, by a two-thirds vote, override this action.

In a few cases, as in the state of New Mexico, the budget plan permits the governor and administrative and executive heads to appear before the legislature in regard to their proposed expenditures However, this privilege is so unusual in the United States that it may be regarded as exceptional. In Pennsylvania the Secretary of State, who is appointed by the governor, is the budget officer. In Wisconsin a board, composed of the governor as chairman, three of his appointees, the Secretary of State, the president pro tempore of the Senate, the Speaker of the House, and the chairmen of the two legislative finance committees, controls the budget making In a few states, the budget is still prepared by legislative committees or bureaus to whom the state departments, agencies, and public institutions submit directly the estimates of their public expenditures.

The legal requirements for the preparation of *balanced* budgets varies considerably among states In Arkansas, the Budget Commission of the Legislature must recommend changes needed in the revenue laws to adjust yields to expenditure requirements. In Alabama, the Governor is required to recommend measures to be taken by the legislature in order to deal with deficits or surpluses of the current quadrennium. California's Constitution, in which the state's basic budget law is embedded, specifies that the Governor must recommend new sources of revenue if existing sources are inadequate to finance proposed expenditures.

Many states handle this matter of balanced budgets by statute. In Georgia, the statute specifically says "If the proposed expenditures for either fiscal year shall exceed the estimated revenues therefor, the Governor shall recommend the sources from which the additional revenue shall be provided " A Rhode Island statute states, "In the case a deficit immediate or prospective is shown in said report [budget] said Commissioner shall include in said report [budget] his recommendations concerning the manner in which to remove said deficit."

It now seems to be a general requirement that the governor of the state suggest new sources of revenue, or changes in the old sources, especially in the executive type of budget. This requirement is contained in the constitution or statutes as part of his budgetary duties

Municipal Budgets. The adoption of budgetary plans by the cities in the United States is universal In fact, the budget movement in this country seems to have started in New York City.[7] In its main outline, municipalities follow the same procedure in the adoption, organization, and execution of budgets as that of the federal and state governments The budget may be prepared by the mayor, or by a director under his charge, or by the legislative branch of the city. In all cities having the manager plan of government, the budget is prepared under the direction of the city manager and submitted by him to the municipal council for approval

In New York City, the various responsible municipal heads address estimates of their expenditures to the Council. These estimates are then referred to a Board of Estimate composed of the mayor, the comptroller, the president of the Council, and the presidents of the five boroughs The final budget is prepared from these estimates It is submitted to the Council for adoption. The board may not increase any item, but it may make reductions subject to the veto of the mayor This veto may be overridden by a three-fourths vote of the Council. Public hearings, as in St Louis, are frequently held on the municipal budget before it is finally adopted, but all too frequently little interest is manifested by the people in these fiscal matters

The Enacting and Appropriation Procedure. As has been stated, the budget of the United States is not a law, but a fiscal report by the President to the Congress; it is but an estimate of expenditures and receipts in advance. After expenditures have been approved by the proper committees, and the bills have been prepared, the House of Representatives, and subsequently the Senate, are ready for a vote. An appropriation may be made as a lump-sum, in which case the President is authorized to use wide discretion as to how the money is to be spent This is especially true when the Chief Executive sends secret missions abroad No questions are asked as to how the funds are used

At times, the purposes of certain proposed expenditures may be of such broad nature as to preclude any great amount of

[7]Immediately after its organization, the New York Municipal Research Bureau began the study of budget making in 1906 Its first report, in 1907, suggested plans for "Making a Municipal Budget," and was the beginning of nationwide study of budgetary processes in the United States

direction by Congress as to how they should be spent; hence, it may be advisable or necessary to make only lump-sum appropriations under such circumstances.

After the budget has been submitted to the legislative branch by the Chief Executive, and even after it has been approved and put into operation, certain changes or alterations in estimates of expenditures usually have to be made This may be necessary because of a change in economic conditions, or it may be due to an underestimate of certain items of expenditures. In such cases, a supplementary budget, or deficiency bills, will have to be prepared and sent to the legislative branch for approval. These go through much the same procedure as any part of the regular budget

Under the Federal Act of 1921, the President may submit certain supplementary or deficiency estimates to Congress to meet emergencies that have arisen after his budget message was delivered, provided that he includes full explanation of the purpose for additional funds. If the amount requested brings the total expenditures above the expected revenue for the next fiscal year, his special message must also include a proposal for new sources of income. These new sources of revenue are actually proposed by the Secretary of the Treasury who is the head of the fiscal affairs of the federal government and who has charge of the collection and disbursement of all government funds. In this matter, the Secretary of the Treasury has been given considerable power to deal with Congress and with the various fiscal committees.

Back of every unbalanced budget exists the possibility of inflation Every government therefore endeavors to operate under a balanced budget with expenditures and income equal. It has been noticed already that this exact balance is not possible at all times, because government expenditures and income originate independently, and therefore do not regularly tend to balance. The best system of government finance is neither a long-time surplus nor a long-time deficit, but a continual alternation between these two fiscal conditions over short periods of time. In an ideal fiscal administration, a surplus in one year or period will take care of a deficit in the next. This procedure usually involves the use of public credit. This important subject will be discussed in a later chapter.

The Execution of the Budget. The final stage in the cycle of the budget includes spending the funds raised by taxation for the

benefit of the people. This duty devolves upon the executive department and is therefore primarily a function of the President The legislative branch makes the necessary appropriations, and it then becomes the duty of the executive department to carry into effect the budget as it has been approved. The execution of the budget includes collection of revenue, custody of public moneys, spending in accordance with the laws that provide for appropriations, and, finally, the use of public credit All these involve certain fiscal relations among the various units of government.

The Treasury Department was created by Act of Congress for the purpose of managing national finances. It is therefore the fiscal center of the United States Government [8] This department was one of the first divisions to be organized after the adoption of the Constitution The Secretary of the Treasury was originally solely charged with the preparation of plans for the improvement and management of the revenue and the support of the public credit, although this function is now, in part at least, transferred to the Bureau of the Budget. The act provided that the Secretary should prescribe the forms for keeping and rendering all manner of public accounts and for making returns. The Secretary was empowered to make all loans, and to grant, subject to limitations, all warrants for moneys to be spent according to legal appropriations Today, the Secretary is by virtue of acts of Congress perhaps the only cabinet officer who can furnish information to or deal directly with either or both branches of Congress without the consent of the President.

The Act of 1921 originally placed the Bureau of the Budget in the Department of the Treasury, although all its activities were directly under the supervision and control of the President. Today, the Bureau of the Budget is lodged entirely in the Department of the Executive The principal fiscal divisions of the Treasury Department are the Bureau of Customs, the Bureau of Internal Revenue, the Mint, the Office of Commissioner of Accounts and Deposits, the Office of Commissioner of the Public Debt, the Office of the Comptroller of the Currency, and the Office of the Treasurer of the United States

The Bureau of Customs administers the powers and duties that are vested in the Secretary of the Treasury with respect to

[8]The Treasury Department was created by Act of Congress, approved September 2, 1789 (1 Stat. 65)

importation into and exportation of merchandise out of the United States. It collects all duties in compliance with the tariff laws. The Bureau of Internal Revenue has general supervision over the determination, assessment, and collection of all internal revenue taxes, such as the income and profits taxes, the alcohol tax, the tax provisions of the Social Security Act, and many other miscellaneous sources of income.

The Office of the Commissioner of Accounts and Deposits supervises the duties that relate to the Division of Bookkeeping and Warrants, the Division of Disbursements, the Division of Deposits, and the Section of Surety Bonds The Office of Commissioner of Public Debt includes all services that pertain to the public debt and paper currency issues of the United States When a new public loan is to be floated, it prepares all the necessary documents and directs all the subscriptions and allotments of the securities.

The Office of the Comptroller of the Currency has general supervision over all the national banks, the organization of new banking institutions, the consolidation and liquidation of national banks, and the granting of the privilege of operating branches, where this concession is permitted by law

The Office of the Treasurer of the United States receives and disburses public funds on deposit in the Treasury or in other authorized depositaries It is the fiscal agent for the issuance of paper currency, for the payment of principal and interest on the public debt, and for the redemption of all currencies issued by the National and Federal Reserve Banks This office also receives all appropriations made by Congress and credits the legal amounts to the various government departments and agencies for disbursements

Budgetary Review. The President of the United States is only an executive officer in the administration of the budget The real authority for all governmental expenditures can come only from Congress. This authority, the courts have held, cannot be delegated. Hence it is imperative that the legislative branch create some kind of control and audit over all the budgetary processes. These legislative measures of control vary widely among the nations. They extend from a thorough audit and examination of all expenditure accounts and vouchers, as in England, to little or no supervision over them, as in such countries as Germany, Italy, and Russia during dictatorships.

The term "audit" includes a pre-audit, or the verification of all expenditures before they are made, and a post-audit to determine if the public funds have been spent properly and exactly in conformity with the will of the legislature. An audit is not a mere formal examination of authorities and of rules It includes all particular items of expenditures. The purpose of the audit is to determine whether the same results could have been obtained otherwise with greater economy and, in case of an increase in proposed expenditures, whether the particular circumstances required the raising of additional public funds. These audits may be of great aid in preparing estimated expenditures for a particular function.

In the United States, by the budgeting act of 1921, governmental machinery was created in the General Accounting Office "which shall be independent of the Executive departments and under the control and direction of the Comptroller General of the United States," for the purpose of auditing all federal expenditures The Act of 1921 also provided that "there shall be in the General Accounting Office a Comptroller General of the United States, who shall be appointed by the President with the advice and consent of the Senate "[9]

The Comptroller General investigates "at the seat of government or elsewhere, all matters relating to the receipt, disbursement, and application of public funds, and shall make to the President when requested by him, and to Congress at the beginning of each regular session, a report in writing of the work of the General Accounting Office, containing recommendations concerning the legislation he may deem necessary to facilitate the prompt and accurate rendition and settlement of accounts, and concerning such other matters relating to the receipt, disbursement, and application of public funds as he may think advisable "

In such regular report, or in special reports at any time when Congress is in session, the Comptroller General shall make recommendations looking to greater economy or efficiency in public expenditures [10] The Act of 1921 provides also that "all departments and establishments shall furnish to the Comptroller General such information regarding the powers, duties, activities, organization, financial transactions, and methods of business of their

[9]Budget and Accounting Act, *supra*, C 18, paragraph 301
[10]Budget and Accounting Act, *supra*, C 18, paragraph 312

respective offices as he may from time to time require of them; the Comptroller General, or any of his assistants or employees, when duly authorized by him, shall, for the purpose of securing such information, have access to and the right to examine any books, documents, papers or record of any such department or establishment."[11]

It will be noticed that the Act of 1921 makes these duties mandatory upon the Comptroller General Congress and its committees, as well as the Bureau of the Budget through the President, frequently require the Comptroller General to investigate certain fiscal matters and to furnish appropriate information Since 1921, the efficiency of control and audit have been greatly increased, and uniformity in accounting has been introduced to advantage, although President Roosevelt in his reorganization proposals to Congress in 1938 recommended that the office of the comptroller general be abolished and that it be placed under the supervision of the executive. This transfer was not made and the comptroller general still remains independent of the executive.

Custody of Public Funds. When taxes are collected they become the property of the government and a proper place must be provided for their safekeeping While the Constitution makes no express provision for the establishment of such fiscal agencies, yet, under the doctrine of implied power that arises out of the right of the federal government to collect and disburse money, it was early held that certain financial institutions may be incorporated to act as depositories of public funds.[12]

During early colonial days taxes were paid in kind To preserve such perishable commodities as peas and tobacco always involved difficulty Later, when taxes were paid in money, problems of inflation, changes in purchasing power and currency control became important. The First and Second United States Banks, organized in 1791 and 1816, respectively, were made depository and distributing agencies for federal funds These central fiscal agencies rendered an indispensable service until 1834, when President Jackson succeeded in destroying the Second United States Bank by transferring all the federal funds to certain state institutions. These state banks, sometimes called "Jackson's Pet Banks," proved to be undesirable as fiscal depositories because

[11]Act of 1921, *supra* C 18, paragraph 313
[12]McCullough v. Maryland, 4 Wheaton 316 (1819)

of their financial instability. Accordingly, the independent treasury system was established in 1846 The effect of the Independent Treasury Law was that the federal government completely dissolved fiscal relations with the private banking systems. A group of subtreasuries were located in strategic places throughout the United States. These institutions were entrusted with the responsibility of receiving all local revenues and of making disbursements This plan provided a safe method for the handling of public money, but it was defective in that it made of the federal government a great hoarding institution. Tax collections and disbursements do not necessarily coincide. Considerable sums were allowed to accumulate in the various subtreasuries, thereby withdrawing funds from use by manufacturing and commercial enterprises

When the National Banking Act was passed in 1863, the Secretary of the Treasury was given authority to designate certain national banks to serve as depositors of federal funds This new policy possessed the advantage of keeping the surplus funds of government in the channels of trade. The old independent treasury system fell into disuse and was finally repealed in 1920.[13]

The Federal Reserve Act of 1913 provided that any Federal Reserve Bank may be required to serve as a fiscal agent of the United States government. Section 15 of the act states that:

> The moneys held in the general fund of the treasury, except the 5 per cent fund for redemption of outstanding national bank notes and the funds provided in this act for the redemption of Federal Reserve notes may, upon the direction of the Secretary of the Treasury be deposited in the Federal Reserve Banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States, and the revenues of the government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.
>
> No public funds of the Philippine Islands or of the postal savings, or any government funds, shall be deposited in continental United States, in any banks not belonging to the system established by this Act. Provided, however, that nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories

At present, the federal government uses both the reserve banks and their members as fiscal agents, including certain designated

[13]Appropriation Act of 1920, *Laws of Sixty-sixth Congress, Second Session*, Washington, D C.; Government Printing Office, Chap. 214

state institutions. Except as has been explained, federal loans are floated through those banks that are fiscal agents of the United States.

While the experiences of the state and local governments have varied widely, yet in general, all their funds are kept in and disbursed through certain designated banking and other financial institutions. Usually the character or type of depository, the interest charge, and the manner of disbursement by warrants or otherwise are carefully defined by statute. In general, the practices of handling funds followed by state and local governments parallel the procedure of the federal government.[14]

Custody of Public Funds in England. In England, the management of public funds is a simple matter. The English Treasury has become purely an administrative body. The Chancellor of the Exchequer is in direct charge of all financial affairs, such as government income and expenditures, taxation, the public debt, and also of the mint. The Bank of England not only serves as a public depository, but also acts as fiscal agent for the British government The Treasury prescribes all matters that pertain to the financial policy of the government. Public funds may not be disbursed for any purpose except under its direction It is the business of the Bank of England to receive government deposits, to place them to the account of the Exchequer, to transfer sums to the various appropriation accounts in accordance with instructions from the Treasury, and to pay the bills of the government on propery authority.

Summary. The present budgetary system of the federal government grew out of the Budget and Accounting Act of 1921. After the budget has been prepared and printed in all its details by the Director of the Budget under the supervision of the Chief Executive, it is then laid before the Congress for approval or disapproval. With few exceptions, Congress is free constitutionally to raise, to lower, to abolish, or to initiate any item or items of expenditure in the budget it so desires The budget is laid before Congress by the President in what is called his budget speech. After the budget has been received by Congress for consideration,

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[14]Smead, E. L. "Operations of the Reserve System," in *Banking Studies*, Washington, D. C, Board of Governors of the Federal Reserve System, 1941, pp. 260–65, for a discussion of relationship between the U. S. Treasury and the banking system.

the President, or any other government official, has no constitutional right to appear before either house of Congress or before any committee in behalf of or to explain it. The President, or a government official, may be invited to appear before Congress or a committee to explain the reason for such requested expenditure but he does not appear as a constitutional right. From time to time, as need arises, the President may send supplementary budgets to Congress, together with complete explanations for such special requests and why they were not included in the main budget. This follows about the same procedure as does any part of the principal budget

The budgetary fiscal machinery of Congress is quite complicated When the budget has been formally laid before the House of Representatives by the Chief Executive it is immediately divided among about ten subcommittees, according to their special interest, for close and detailed examination Hearings are held, department officials may be called for questioning, records may be required to be brought, the amounts requested are compared with former appropriations and the actual needs of the functions which are to be served. The subcommittees do not intend to overlook any pertinent facts that would aid them in arriving at a fair appropriation for any item in the budget, or function of the government

Essentially the same procedure is followed in the Senate when its committee system comes to examine the budget.

When the budgeted expenditures have been approved by the House of Representatives and Senate as a whole, then appropriation bills are prepared When these expenditure and appropriation bills have been duly passed by both houses of Congress, differences being settled in conferences, and signed by the Chief Executive, the fiscal program then becomes a law. It then remains to be executed by the authorized administrative group according to this law.

The principal sources of income to the federal government are internal revenues, custom duties and a host of miscellaneous receipts The student is referred to page A 11, Table 6, Budget Receipts, The Budget for Fiscal Year Ending June 30, 1949. for a detailed list of incomes by source of the United States Government.

The tariff duties were the first source of income to the federal government. Later came excises and internal revenues, and more

recently taxation on incomes, estates, and other types of levies. These must all be entered in the budget, together with previously appropriated, estimated, and actual expenditures. The states, municipalities and local units have more or less highly complex budgets. In many instances, the adoption of the budget procedure has been responsible for reorganization of the government and concentration of power in the upper levels of administration.

After the budget has been executed it is then subject to post-review and post-audits. In the case of the federal government, the Comptroller General has been authorized to perform this task.

The custody of public funds is almost entirely left in the Federal Reserve Banking System. In the states, this matter of public custody of funds is very severely regulated.

TEXT QUESTIONS

1 What is the "State of the Union" message?
2. Does the budget include handling of the national debt?
3 What congressional committees study the proposed budget?
4. Why must revenue bills originate in the House?
5 What are "Internal Revenues"?
6. Why do we have a "Ways and Means Committee" in the House?
7 When the legislation for tariffs is altered in the Senate after passage by the House, how are the differences resolved?
8. Can the President make tariffs?
9. What is the "flexible tariff" provision?
10 Is there any good reason why the governor should prepare the state budget? If so, why?
11. What is the budget-making procedure in Illinois?
12. Are municipal budgets common?
13 What is the purpose of the Treasury Department?
14. What are the duties of the Bureau of Customs, of the Office of the Commissioner of Public Debt?
15 When was the office of "Comptroller General" created?
16. Who has custody of Public Funds?
17. What is the Independent Treasury System?
18 How was the Independent Treasury System affected by the National Banking Act of 1863?
19 What were the provisions of the Federal Reserve Act of 1913?
20. How are Public Funds handled in England?
21 What fiscal machinery does the federal government have for checking the efficiency of spending, the accuracy of accounts, and the individual responsibility for handling departmental outlays?

APPLICATION PROBLEMS

1 Presidents have repeatedly asked for a constitutional amendment to give them item veto power over the federal budget Do you agree that such additional power of the executive would improve the efficiency and economy of public expenditures?

2 Would you recommend that officials be appointed in your state like the Comptroller General and Director of the Budget, with similar powers and duties? Give extensive reasons for your answer

RESEARCH TOPICS

1 What fiscal machinery does your state have for checking the efficiency of spending, the accuracy of accounts and the individual responsibility for handling departmental outlays? Your city or other local unit of government?

2 Read very carefully the most recent President's Budget Message to Congress. Note especially his recommendations in regard to expenditures and sources of income and taxation for the coming year What does he say in regard to the relation between the fiscal policy of the federal government and its effects upon the general economy? What does he suggest in regard to debt management?

3. Go through the latest federal budget and see if you can recommend cuts in expenditures keeping in mind the effects of the efficiency of the particular function in question

4. What is the law in your state respecting the custody of public funds? Does the law allow or require redundant funds to be put out at interest?

5 Consider the system of accounting of the federal government and compare and contrast it with that of private industry and corporations. Give reasons for these distinctions.

6 After the budget has been submitted to the legislature of your state, follow its procedure through this body To what committees is the budget referred for action, and what is the power of each to act?

7. Can you find any information in regard to the work and operation of pressure groups and taxpayers associations before the state legislature of your state as it considers the budget of expenditures and revenues?

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CHAPTER 11

GOVERNMENT BUDGET: ITS ECONOMIC SIGNIFICANCE AND PUBLIC POLICY

The Bureau of the Budget is one of the most important of all the administrative agencies of the federal government. It is the principal medium through which about all the estimated expenditures of the various divisions of the federal government for the next fiscal year and all the sources of income are submitted to Congress. This Bureau is also entrusted with certain responsibilities in regard to efficiency and economy of public spending. The adoption of an executive budgetary system has greatly increased the power of the President over the fiscal activities of the federal government, but not to the extent of displacing or curtailing any legislative and judiciary functions. Congress, and especially the House of Representatives, cannot entrust the power to levy taxes, to appropriate money, or to enact the budget to the executive, because such matters are strictly legislative and, under the Constitution, cannot be delegated to any other body. The President can act on fiscal matters only in strict accordance with legal authority conferred upon him by Congress and by the Constitution.

The budgetary system serves the most valuable functions of co-ordinating expenditures and income, of effecting tax reductions through government economy, of supporting efficiency of government, of putting public credit on a sound basis, and of facilitating fiscal and economic planning. The budget is of the essence of government. It contains, in a condensed form, all the varied functions that the government performs The modern budget is more than a fiscal record. It is also a political document. It not only tends to concentrate greater control over the financial affairs of the government in the executive, but it may be planned so as to effect fundamental changes in the whole economy The budget may be used as a factor in the redistribution of wealth and in effecting a planned economy. These matters especially will be considered in this chapter

The Nature of State Economy. The state is a political entity—a corporation sole. It is a business organization, and must be

operated in accordance with the rules of a going industrial concern. In fact, government closely emulates business in its endeavor to operate in accordance with the economic laws of costs. The *products* of government are largely in the nature of immaterial services. But such services must be furnished at a minimum of social cost to the taxpayer and at a maximum of government efficiency The government is primarily interested in providing for the general welfare of its people and not in making a profit. It is, therefore, erroneous to treat government finance and private finance as synonymous in every respect.

In the United States, public business is transacted under what is known as a public corporation This corporate entity may take the form of the federal, state, or local government, or it may be a school, drainage, or other special district. There are over 175,000 such separate tax districts in the United States Each of these entities, or districts, has the right to levy and collect taxes, to borrow money for public purposes, to acquire, hold, and sell property when necessary to its operation, to sue and to grant the right to be sued, and to make contracts. As in the operation of an ordinary business, these governmental units must contend with budgeting surpluses and deficits, expenditures and income, and devise accounting systems to keep a complete record of their fiscal activities As a private enterprise, these records must contain information regarding past operations and present conditions in order to provide a basis for the determination of future fiscal policies and to serve as a control over the acts of public officials.

Only occasionally does the federal government enter into active competition with private enterprise. The Tennessee Valley Authority was organized to produce electric power and nitrates, to control flood waters, to improve the navigability of certain internal waters, and to act as a yardstick for determining the costs of operation in the electric utility industry As an arm of the federal government, the TVA has been critized severely because, it has been alleged, it does not compete fairly with private industry by maintaining comparable operating conditions. It has been charged that the TVA does not allow for such items in its costs of operation as taxes, depreciation, and obsolescence, a reasonable return on the investment, and the market rate of interest on funds that it might be obliged to borrow if it were a private corporation. There is no doubt that the TVA, as an

agency of the federal government, possesses certain advantages over private industry Its funds were provided out of appropriations from Congress, or it was able to borrow on the general credit of the United States government at favorable rates of interest. It therefore became necessary for the TVA to revise its accounting procedure to conform more nearly to the practices in private industry under similar operating conditions.

What has been true of the TVA is likewise the case in every other branch or agency of the federal government. In so far as it is possible, the federal government has introduced a complete and uniform accounting system throughout its entire organization To a great extent, government and business have tended to emulate each other in their systems of accounting, financial policies, and costs of operation.

It is the general opinion, as well as the holdings of the courts, that only businesses affected with public interests should be subjected to government regulation.[1] Some businesses, such as the utilities, are so vital to the public interest as to require special grants, or franchises, from the state to operate. Still other types of indispensable utilities, such as the post office, road system, parks, playgrounds, and schools, should be owned and operated by the state The federal government therefore occupies the dual position of control of private business and of the ownership of property. The government has in its possession and ownership billions of dollars of all types of property. The new trends in the functions of government, including recent social activities, have greatly modified the budgetary process.

For purposes of analysis, the federal budget may be divided into (1) ordinary expenditures for general government; (2) extraordinary or emergency expenditures, (3) social expenditures for economic security, rehabilitation, recovery, and relief, (4) capital expenditures, which constitute the government's proprietory ownership in buildings, dams, national parks, lands, and forest reserves, and (5) certain annexed budgets The capitalistic, or proprietary budget, will be discussed later

The federal government is a great business corporation, which, in its operation, involves almost every activity of a private industrial concern. It must, therefore, be operated according to the

[1]Munn et al. v People of the State of Illinois, 94 U S 113, 24 L Ed 77 (1877); Chas. Wolff Packing Co v Court of Industrial Relations of Kansas, 267 U S. 552, 45 S. Ct 441 (1925).

principles of sound economics and of good business administration. To handle all the fiscal records, Section 301 of the Budget and Accounting Act, 1921, created an establishment of the government known as the General Accounting Office. This agency is independent of the Executive Establishment, and is under the control of the Comptroller General of the United States. The General Accounting Office has full charge of all the accounts that relate to disbursing and collecting of money by the Secretary of the Treasury, and of settling and adjusting all claims, either as debtor or creditor, of the United States Government

The Capital Budget. The fundamental purpose of a budget, whether private or public, is to give a clear statement of the financial status of the economic unit at a particular time. The accounts in each case are not the same because the public and private points of view are different. The state must organize its budget entirely in the public interest. Many writers criticize the division of the public budget into ordinary, extraordinary or emergency, social, and capital expenditures, on the grounds that these terms are vague and indefinite. But ordinary expenditures of government include all the outlays for such specific functions as legislative, executive, and judiciary; extraordinary, or emergency expenditures, as these terms imply, include all outlays for the unexpected, such as wars and catastrophes; social expenditures cover government aids to economic security, stabilization, health, and rehabilitation; and capital expenditures refer to government investment and proprietary interests which yield utility over relatively long periods of time

In the ordinary course of events, some goods are consumed directly by the people, while others are used in the processes of production. Economic theory attempts to distinguish between consumers' and producers' goods. This latter class of goods constitutes the capital of the concern, which may yield service over long periods of time.

Governments are just beginning to budget capital expenditures, or those that yield a public benefit for a long time. With a little foresight and planning, the government can determine in advance, with a fair degree of accuracy, the amount of expenditures for permanent capital improvements It is the only method by which the budget may be kept in balance on either an annual or a cyclical basis. It is about the only means of insuring against

excessive or wasteful expenditures under the heading of permanent capital improvements

All grades and types of modern governments own and operate many enterprises that yield a profit, even after allowing for such cost items as taxes, interest on investment, depreciation, and obsolescence and upkeep The post office is a large public enterprise and, in some countries, as in England, yields a substantial net revenue to the government. The estimated expenditures and income of such public enterprises should be entered in separate or annexed budgets. Many utilities, such as the TVA, and the gas, water, electricity, and transportation of cities, are publicly owned and operated by the government. As has already been explained, the federal government either has made heavy investments in many such enterprises, or, by lending its credit, has guaranteed their outstanding obligations. These liabilities of the federal government are only contingent, because these enterprises are expected to be self-liquidating. The federal budget now includes a section on these new fiscal items under the heading of contingent liabilities.

There is considerable confusion over the term "investment" when it is applied to the fiscal facts of government. The federal government put millions of dollars into the railroads, banks, insurance companies, and industrial concerns, through the Reconstruction Finance Corporation, during the great depression. It also invested considerable sums in the Tennessee Valley Authority and in irrigation and power projects in the West. The federal government has many trust funds, such as those of the social security and of the unemployment program, which are invested in its own securities

During the period following 1933, when the federal debt was increasing at a rapid rate, these enormous expenditures were considered, in part, as an investment. Just as the private individual spends when he invests in his own business, or buys the stocks and bonds of another concern, so part of the federal debt represented a capital sum invested in recovery, rehabilitation, sustaining private enterprises about to fail, and in granting aids to the aged and unemployed. Since the benefits of government are mainly nonmaterial, its investment as represented by the public debt, may be similarly intangible. There is no attempt in the federal

budget to separate the investment and net expenditure aspects of the public debt.

Private expenditures in the form of investment are not regarded as part of a deficit. Such expenditures merely take on the form of new assets. The modern government spends considerable sums of money on material as well as on nonmaterial functions that yield utilities for long periods in the future. The government may put money into such tangible utilities as public buildings, parks, playgrounds, water reservoirs for irrigation purposes, and reforestation. It may finance schools, research, work projects for rehabilitation of the unemployed, economic recovery, and social security. As in the case of private spending, such expenditures should not be regarded as consumptive, but rather as public investments. On all investments of a more or less permanent nature, the government should make allowances for interest on invested funds, obsolescence, and depreciation Unless every fiscal situation is taken into consideration, it is impossible to determine whether or not the budget is in balance It therefore follows that the real deficit of a government at a particular time is not necessarily the excess of expenditures over income

A government should operate on a dual budget system. The first budget should show the immediate relation between current consumptive expenditures and current net income The second budget should show a long-time relation between future income and amortized capital outlays. During World War II it became necessary to set up an emergency budget to show the exact fiscal status of the federal government. But such an emergency budget need not interfere in any way with the budgets that show respectively the current consumptive expenditures and the outlays for capital purposes The first budget could be kept in balance at all times, either by short-time borrowing, with immediate prospects of liquidation out of surplus, or by readjusting the rate schedules of certain flexible incomes. The second budget should be balanced by borrowing, with definite provisions for liquidating the deficit in some systematic manner.

Therefore, the question of whether or not a government budget is in balance becomes a technical one. Should the budget show a balance on a monthly, annual, or cyclical basis? Should all the conditions of the budget be taken into consideration in arriving at a balance? Is the budget to be regarded as out of balance be-

cause the current income is only sufficient to meet the ordinary expenditures of the government, and sums must be borrowed for extraordinary, capital, and social purposes?

A budget, if it is to give the complete fiscal situation of a government, must necessarily be a complete document. While it is necessary that it show the fiscal status of each major governmental function, it must also give an over-all picture of the entire fiscal activity of the government The budget should show the "over-all liability," including contingent liability, as well as the totals of cash income and cash outgo, on monthly and yearly bases. Government has become one of the principal factors in the distribution of income Therefore, the budget should show how its fiscal activities affect the whole economy At times, it may be good policy to balance the government budget, while at other times it would be disastrous. Here is where private and public finance do not coincide The plan of balancing the budget on an annual basis is gradually giving way to the cyclical method, which may extend over a period of several years Fiscal activities of governments run in cycles that require longer-range planning than the accustomed one-year fiscal period.

In setting up a capital budget, it is necessary to determine the valuation of the government's investments in durable goods. Such valuation, if kept up to date, would contribute greatly to accuracy in accounting and also be of inestimable value in planning revenues and expenditures for amortization and replacement The difficulty, if not the futility, of determining the present value of a utility's physical assets was demonstrated when the Valuation Commission after 1920 attempted to evaluate the railroads for rate-making purposes An attempt to evaluate all the properties of the federal government would be an extremely difficult and expensive undertaking, and would hardly be worth the effort that it would entail The project would probably be out of date a long time before it was completed. It would be possible, however, by keeping an account of all expenditures for capital purposes, to develop over a long period of time a complete inventory of public investments The most useful methods of determining utility valuation are original or historic cost and the cost of replacement, less depreciation. The United States Supreme Court has recently declared in favor of the prudent investment method.[2] "The

[2] Federal Power Commission v. Natural Gas Pipeline Co., 62 S Ct 736, (1942).

Constitution," said the Chief Justice in deciding this case, "does not bind rate-making bodies to the service of any single (valuation) formula or combination of formulas."

The budget, especially that of the federal government, has become a highly technical, complex public document. The unitary type of budget no longer seems to satisfy completely the present fiscal needs of modern government The unitary type is comprehensive and simple, but it lacks the administrative flexibility of the multiple budget, which is so necessary in modern fiscal operations Neither does it set forth in clear detail the varied and multiple functions of government.

A comprehensive budget of the multiple type should include in considerable detail the following activities:

- I The ordinary budget
  - 1. Legislative
  - 2 Executive
  - 3 Judiciary
  - 4 Past and future war expenditures
- II The extraordinary budget
  - 1 Current war expenditures
  - 2 Current emergencies
    - A. Epidemics
    - B Floods
    - C. Droughts
    - D Aids to industry during periods of depression
- III The social budget
  - 1 Social Security
  - 2 Rehabilitation
  - 3. Aids to unemployed
- IV The capital budget
  - 1 Public works projects
  - 2 Contingent liabilities agencies
  - 3. Government investments
- V The annexed budget
  - 1. Post office
  - 2 Trust funds

The Capital Budget in Operation. In its broadest sense, a government is said to have a dual budgetary system when the current-operation expenditures are kept separate from outlays for capital or investment purposes Each division may be further subdivided by setting up certain special and annexed budgets. The outlays of each division are separated for purposes of ac-

counting only. Even under a dual budgetary system, provision must be made somewhere for unifying all the accounts so as to present an over-all picture of the whole fiscal situation of the government. There is, therefore, a great degree of interdependence between these two divisions, because all operating expenditures of capital investments should be charged to current income In general, a government is justified in borrowing only for financing permanent improvements, its current or ordinary expenditures should be met out of current income. If they are not, the existing tax program should be revised, or a short-time loan should be floated with definite provisions for its early liquidation

There is some controversy as to the charges that should be allowed under the capital budget. But it is generally agreed that on all government assets which are durable, provision should be made for depreciation, reserves, capital losses, amortization, write-offs, and replacements, because at some time these permanent improvements must be replaced. The capital budget should also contain special provisions for income for meeting the current expenditures The case of interest charges is not so simple—it all depends upon the nature and kind of the government investment. If the improvement were built out of borrowed funds, the interest on the loan would be treated, in any event, as an operating expense and be paid out of current income. Certain forms of government investments, such as the TVA, which are operated as private enterprises, should include a fair interest charge as part of their costs of operation But there seems to be little reason for allowing for interest on investments in such permanent assets as buildings, national parks, schools, forest reserves, which are not self-liquidating or not income yielding.

Proposed Budgetary Reforms. The question of budgetary reform in the United States has been under serious consideration for some time, especially with reference to capital outlays In his budget message to Congress on January 3, 1939, in regard to the 1940 fiscal year, President Roosevelt had the following to say:

> Beyond these questions of ordinary expenditures are those which relate to the nonoperating or unusual costs of Government and involve extraordinary expenditures that deal more particularly with the relationship between fiscal policy and the economic welfare of the country These questions concern Government loans, capital outlays, and relief of the needy. Expenditures made under these heads are of such a

flexible character as to provide, through their concentration or expansion, a partial offset for the rise or fall in the national income

The public has been showing an increased interest in the adoption by the Government of a form of budget which would conform more nearly to the practice followed in commercial business. There has been some criticism of the Government's practice of including in its budgetary expenditures, amounts disbursed for loans, or for self-liquidating projects, or for other extraordinary capital outlays which increase the wealth of the Nation.

I recognized the merit of constructive suggestions of this nature by recommending in my last Budget Message a change in the method of financing the requirements of the Commodity Credit Corporation. This recommendation provided for an annual appraisal of the assets and liabilities of the Corporation, and contemplated that any surplus from operations or any impairment of capital resulting from losses be reflected as receipts or expenditures in the annual Budget. Under this method the Budget would be affected, not when the investment or loan is made, but in the fiscal year when the surplus or loss occurs Congress approved this recommendation in the act of March 8, 1938, and it might well give consideration to an extension of this principle to other governmental corporations and credit agencies, such as:

Agencies under the Farm Credit Administration
Electric Home and Farm Authority
Export-Import Bank of Washington
Farm Security Administration
Federal Crop Insurance Corporation
Federal Savings and Loan Insurance Corporation
Home Owners' Loan Corporation
Inland Waterways Corporation
Panama Railroad
Reconstruction Finance Corporation
Rural Electrification Administration
United States Maritime Commission

Public projects of a self-liquidating character represent another class of expenditures appearing in the annual Budget as current outlays, to which this principle might also be applied For example, outlays for the Boulder Canyon project amounting to more than 120 million dollars have been included in annual budgetary expenditures of the Government, notwithstanding that the total cost of the project, including capitalized interest during the period of construction, will be returned to the Government within 50 years, with interest.

While I do not advocate that the Government capitalize all of its expenditures for physical improvements, it seems to me that such portions of the cost of public projects as are

clearly self-liquidating should occupy a separate category in budgetary reporting. Our financial statements, of course, should clearly reflect, in appropriate classifications, the amount of Government outlays for physical improvements that are not self-liquidating in character. We must take into account the necessity for making such of these and other changes as will permit the presentation to the Congress and to the public of more accurate and intelligible statements of the financial operations of the Government.

This statement by President Roosevelt did little more than take official notice of the need of certain budgetary reforms It did not make actual provisions for any innovations in budgetary procedure. The President did, however, recommend to Congress, and the recommendation was later adopted, that there be made an annual appraisal of the assets and liabilities of the Commodity Credit Corporation, but this plan has not been extended generally to other governmental agencies The capital or investment budget seems to be a resultant of government activity in the fields of private enterprise, and its further development in the United States may be expected with the growing importance of this new function of the state.

The Capital Budget in Other Countries. In many other countries, such as Denmark and Sweden, the capital or investment budget has been extensively developed. Perhaps the Danish budget goes further in this respect than that of any other country It requires every capital outlay of the government to be entered under a separate account It makes no distinction between self-liquidating and nonrevenue producing investments. The only criterion seems to be the durability of the asset. The Danish law provides that all government investments of a durable nature shall be financed by (a) borrowing, (b) amortization and depreciation allowances, and (c) inheritance taxes In Sweden, the capital or investment budget idea is applied only to government assets that are durable, remunerative, and self-liquidating Durable investments that do not yield an income are treated as current operating expenses. The Swedish system is therefore more nearly in line with the development in the United States The Swedish budget makes no allowance for interest charge on any type of durable investment

The Danish and Swedish systems illustrate the dual budgets in contrast. In respect to the capital budget, both regard durability

of assets as important, but Sweden includes under such category only the assets of those government agencies that are revenue producing and self-liquidating. Writers on public finance generally agree that a capital budget of durable assets is necessary, but they do not agree as to its extent Some, as in Denmark, would include all durable investments, whether revenue or nonrevenue producing Others, as in Sweden and perhaps in the United States, would include only durable government investments that are self-liquidating and revenue producing. Under the Act of Congress of March 8, 1939, the Secretary of the Treasury is required to make an appraisal of all assets and liabilities of the Commodity Credit Corporation as of the 31st of March of each year for the purpose of determining its net worth All other governmental corporations and credit agencies are outside the budget in the sense that they may obtain their funds out of the sale of their own obligations upon the contingent liability of the federal government

Budgeting Deficit Finance. During the last two or three decades, governments have been operating under a policy of deficit spending, or deficit financing, as the expression is ordinarily stated This seems to be creating a fiscal condition in which the state is to remain permanently in debt Such policy is not without its supporters

It should be said at the outset that the expression "balanced budget," as used in government circles, is something of a misnomer; it is a term which needs to be defined when used in a particular case. It has given rise to much controversy and loose thinking and a variety of meanings The same writer may use it in more than one sense The error largely arises in attempting to draw too hard and fast a parallel between private and public finance, and in attempting to arrive at a predetermined conclusion by a selected grouping of government data.

In private finance, an unbalanced budget, or expenditure in excess of income, is bad business. If continued too long, a deficit will lead ultimately to bankruptcy. But such a result does not necessarily follow in the same manner in government operation. If the budget remains unbalanced because of a constantly recurring deficit, it may be necessary for the state to resort to the issue of irredeemable paper money to meet its expenditures. Hence, the way out of a fiscal dilemma for the state, if an immediate increase

in revenue is not possible, is inflation. For many years France balanced its budget by issuing irredeemable promises to pay through the central bank, the Bank of France There are also numerous instances of governments resorting to similar practices during and following periods of great emergency, such as a war, to bolster the security of the general economic situation.

In balancing the budget, two major conditions may be involved Between periods of prosperity and depression, or during the course of a complete business cycle, wide fluctuations in income and public expenditures occur. Tax returns from levies on all kinds of private income and tariff duties are likely to fall to low levels during periods of depression, while in times of prosperity they may increase enormously. Some taxes, such as those on sales of necessaries and general property, are fairly stable and, relatively, are but little affected by the change in the business cycle But as was stated earlier in the text, public expenditures may vary greatly between prosperity and depression. During prosperity, because of augmented national income, it is easy to add new government functions and to secure the necessary additional revenue. But in periods of depression, it is difficult, if not impossible, to effect a material reduction in public expenditures, and, at the same time, to meet all the new demands upon the government All these factors enter into the problem of keeping the budget in balance

Long-time government borrowing is justified when the proceeds are to be used to finance permanent capital improvements which may be useful over a long period of time. Short-time borrowing may be used to balance the budget when current expenditures *temporarily* exceed current income. But a plan to amortize a short-time loan, say within five or so years, should be prepared at the time the debt is incurred.[3] Several plans of amortization are available. First, the loan may be paid in equal monthly or yearly installments over the period of its issue, second, the rate of payment may be more rapid during the early part of its existence, third, the loan may be liquidated very slowly at first leaving the greater part to be paid toward maturity The plan usually used by governments is equal distribution or straight line method of the payments over the life of the loan Since these short loans are made for the purpose of balancing the budget during a business

[3]The period of five years is suggested because it relates to short-time borrowing by a government Any period longer than five years is generally regarded as long-time borrowing in fiscal circles and is usually financed by bond issues

cycle, they should be issued for longer periods during the early part of the depression, the maturities becoming shorter as a state of normalcy returns In any event, when short loans are made for the purpose of balancing the ordinary budget, definite plans should be made to amortize or liquidate the obligations within five or so years, so that they will not become part of the regular debt of the federal government. In general, it is not good fiscal policy to liquidate these loans by means of a reserve that has been created in anticipation of the debt Not much more may be said in defense of earmarking certain taxes for the payment of specific loans. A debt of the government is a claim on all the taxable assets of the people within its jurisdiction, and it hardly seems reasonable to pledge certain tax returns for its payment. There, are, of course, exceptions such as gasoline taxes, which are usually earmarked for maintenance of hard roads or for the liquidation of bonds used for their original construction.

The fundamental purposes or objectives of government deficit financing during periods of depression are, first, to give aids of all kinds to unemployment and to businesses that are struggling to exist, and, second, to raise the general level of income and the standard of living of all the people In all such instances, the emphasis should be placed on government aid and not on control.

Just how far government expenditures may or should go during a period of depression to aid or to mitigate such economic situation has always been a much debated question. During the prewar period from 1931 to 1941 the total deficit amounted to $34,500,000,000 which represents the excess amount spent by the federal government because of the great depression. If such act of government is to be of any material aid in relieving a depression it should be in addition to the total ordinary expenditures and in sufficient amount to have its effect. It has not yet been proved conclusively that any program of government expenditures during a period of depression has ever provided the stimulus for long-time recovery There are those, however, who contend that such expenditures may have their effect, which, like a snowball rolling down hill, may grow in size and power as it progresses. Professor Keynes has set forth the "multiplier" theory in which he contends that, due to a cumulative effect arising out of respending, the total added purchasing power in a community will exceed the original additional spending.

The additional or multiplier system of government expenditure may take the form of capital investment, either public or private. In such case, the net return on the investment would be in addition to the ordinary national income. It is not necessary, however, that this government expenditure be income creating in the sense that it has been made for some kind of capital goods that will yield a net return to the government in the future It could take the form of a dole.

The pump-priming policy of the New Deal is an example. According to the pump-priming theory, it was expected that a relatively small and temporary government expenditure would be sufficient to give the needed initial start to recovery. It was posited upon the general assumption that, once recovery got under way, it would become automatic and self-generating Therefore, the pump-priming stimulation needed only to be applied periodically, whereas the fiscal policy of compensatory spending would be regarded as more or less permanent Whichever view is followed, it would seem that, if the general economy is to receive any stimulation from government spending, it will be because the volume of expenditures is in addition to the oridinary private outlays, or what might be stated as the "additional spending and respending" theory. This is the reason the general level of prices has always risen during a great national emergency such as war. During these periods, because of the increase of government credit, the total accumulated purchasing power greatly exceeds the volume of goods available, which forces prices to rise.

Capitalistic Economy. To discuss intelligently the relations between fiscal policies of government and employment and production, it will be necessary to examine a few general principles of economic organization.

The ideal of any economy is full employment and maximum production of goods and services The end purpose of production is to supply human wants. Under a capitalistic economy, full employment exists when all the employables depending upon salaries and wages for their support are gainfully occupied. There are always, however, many people who are unable to provide for themselves or their families, either in whole or in part, and therefore must be supported by their government out of public funds by means of the dole or direct relief. Such people have a negative taxpaying ability. Maximum production is a relative term. At a

particular time it depends upon the available amount of the factors of production, especially labor and capital, and the available amount of raw materials, including personal skills, to be converted into finished products, services, and utilities. It therefore follows that since human wants in general are insatiable, the volume of production may and often does vary enormously from time to time as measured by the national net income

A distinctive characteristic of a capitalistic economy is the way it operates in the market. A market may be defined as an area in which buyers and sellers meet, and in which one price tends to prevail The sellers or producers in a given market may act independently, or in competition, or they may act collusively as monopolists The same conduct or behavior may be true of the buyers or consumers But since the conduct of sellers or producers in the market is more important than that of the buyers or consumers only the former will be specifically considered

Competition may be defined in general as the conduct or behavior of a great many sellers or buyers in the selling or buying of the same goods or services at the same time to or from the same individuals or groups. Pure competition is said to exist when the number of sellers is very large, or so large that if any one seller were to drop out or to enter the market his supply would affect the total goods and services on the market so little that the resulting prices would remain unchanged. In other words, in pure competition, no one person or small group of sellers has any appreciable control over the price. It should also be noted that competition has two distinct effects upon the direction of resulting prices. If it is competition among producers or sellers, market prices tend to fall; if among buyers or consumers, the effect may be to cause them to rise *In general, the fundamental law of prices under competitive conditions is that the price will be that which clears the market, and is equal to the cost of the marginal unit where all producers are of equal costs, or that of the marginal producer necessary to supply the amount needed.*

The other condition in the market is monopoly (Greek, monopolia—meaning sole selling). Considering the conduct or behavior of the seller or producer, monopoly is said to exist when he has such control or power to restrict the supply that he can manipulate the price in the market. If the article is a necessary, the monopolist can exact a very high price by restricting the supply, or he can

increase the supply and decrease price to increase sales. This condition is greatly affected by the elasticity or slope of the demand curve. The law of monopoly price may be stated thus: *The monopolist will put on the market that supply which will give him that price which will yield to him the greatest net return.*

In many respects, pure competition and absolute monoply do not exist except in theory. Therefore the practical market which does exist contains a mixture of the two elements, competition and monopoly, sometimes called monopolistic competition. There is an English school which does not support the monopoly element in the market but instead simply regards the practical market as competition working imperfectly.

It is therefore necessary to realize that price is the important factor in a market Price may be raised to induce a greater supply, it may be lowered to move the goods off the market. Price has been defined by a famous economist as an evener or balancing of supply and demand, it is a function of supply and demand.

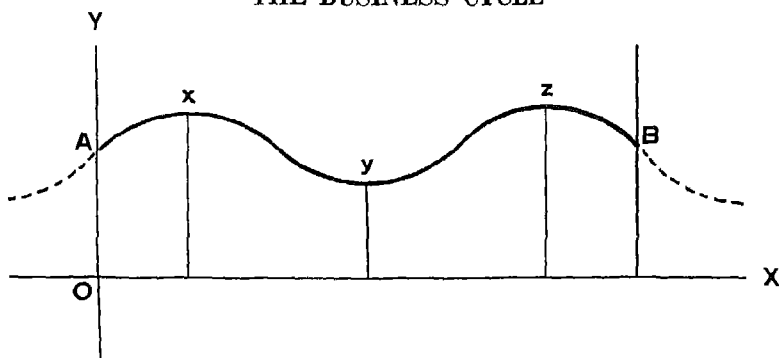
A further elaboration of these and other basic principles of the economy would carry the context too far afield, but these are a few of the classic concepts Their comprehension is necessary to an understanding of what is to follow in this chapter and especially in the later chapters on the theory of shifting, incidence and pressure of taxation.

The fiscal policy of government with respect to taxation, spending, deficit financing, debt management may exert a tremendous effect upon production and employment.

Cyclical Nature of the Economy. It is a well known fact that any dynamic economy, in contrast with that of a static condition, if there is such, is in a constant state of flux, it is either expanding or contracting whether it is measured in terms of volume of output, employment, income, or according to an index number of general price level. If the last measure is chosen, the inverse change in the purchasing power of the dollar with respect to general price movement must be considered. This expansion and contraction of the economy is best described by the business cycle, ignoring for the time such other changes as secular, seasonal and sporadic trends with which it is very difficult, if not impossible, strictly to correlate government fiscal activity. There are numerous explanations of the changes in the business cycle, but the one most generally accepted or discussed is the investment theory.

It is the one most nearly consistent with the resultant effects of a government's fiscal policy; it is demonstrable empirically.

The typical business cycle through all its phases of prosperity, recession, and depression may be illustrated thus:

THE BUSINESS CYCLE

AB is the curve indicating cyclical changes, x and z are the peaks of prosperity; y is the trough or depression of the cycle.

Starting with the trough or end of a period of depression where the cyclical curve has reached its lowest point, the cause of the start of expansion or the beginning of a period of prosperity seems to be the result of a new increment of capital real investment injected into the economy. By capital real investment is meant such fixed capital as buildings, machinery, and, in a sense, raw materials and finished products held in inventory The sources of this new capital real investment may be risk capital out of free funds, or a transfer of funds from some less lucrative use, or an expansion of commercial bank credit, or new heavy government expenditures

Since this section of this chapter is almost entirely concerned with the economic effects of government fiscal policy on the business cycle, especially in so far as full employment and maximum production are concerned, special emphasis will be placed on the part played by government The theories of these effects may be discussed under the headings of (1) pump-priming, (2) compensatory spending, (3) the multiplier principle, and (4) the principle of acceleration in so far as government spending is concerned

Pump-priming. The theory respecting pump-priming is the easiest and the simplest of the four policies of government spending to explain and to understand and will therefore be considered first.

In its simplest terms, pump-priming is the act of government injecting into the economy new purchasing power almost entirely in the form of additional credit dollars. This new purchasing power may be created or secured by public debt accumulation through deficit financing by issuing irredeemable fiat legal tender paper money, or by taking part of the current accumulations or savings from the people by taxation. It is not a matter of indifference which of these sources of income the state should tap because the resulting economic effects may not be identical.

The expression, pump-priming, was appropriated directly from the act of priming or starting a dry pump by pouring a cup of water into the suction chamber. After the valve is wet and the water begins to flow, further priming becomes unnecessary. In 1933 it was assumed, when the economy had all but collapsed, that all it needed was to be given a "push," or to be "shoved" off center, or to be "primed," and then production and employment would forge ahead under their own accumulated momentum. It was assumed that the federal government would have to spend relatively only a small sum to start the economy up the road to prosperity, to full employment and to maximum production and that it could then retire from further outlay. Consistent with this theory, the New Deal Administration began by paying bonuses to the soldiers, handing out doles and relief, partly through WPA and PWA, passing out funds through the RFC and NIRA, but especially by the dollar devaluation and gold commandeering plans in 1933 and 1934.

In regard to this dollar devaluation pump-priming plan, the President was given authority by Congress in June, 1933, under the Thomas Amendment, to reduce the content of the gold dollar by not more than 50 per cent to increase the number of purchasing power units. Since the gold dollar at that time was 23.22 grains of gold, as fixed by Congress on March 14, 1900, the President could by his proclamation cut it to 11.61 grains. Since the gold dollar was not being coined, or even circulated, he chose to reduce it indirectly by increasing the price per ounce (480 grains) of gold from $20.67 (480 ÷ 23.22 = 20.67), the RFC paying the bill. This was actually done, but he stopped at $35.00 per ounce of 480 grains. This fixed the dollar at 13.71 grains (480 ÷ 35 = 13.71), or 59.06 per cent (13.71 ÷ 23.22 = 59.06) of its original weight, popularly known as the 60 per cent, or 60

cent, dollar[4] But this devaluation process and commandeering of all the gold had almost no effect whatsoever upon economic recovery. While the BLS Wholesale Index Number was rising very slowly about that time, it showed no appreciable acceleration during this "meddling with the dollar," or gold bullion grabbing period. The great depression from 1929 to 1939 was not fiscal or financial in nature, and could not be cured by an imaginary smaller dollar or a mere pile of gold. This increase in the price from $20.67 to $35.00 which the federal government paid for an ounce of gold of 480 grains caused an enormous flow of the metal to this country (now over $23,000,000,000), but it was immediately seized by the federal government and either "hidden" in the Treasury at Washington or "buried" at Fort Knox, Kentucky. The difference in weight between the two dollars (23 22 — 13.71 = 9.51) of about 9½ grains was set aside in what was called a stabilization fund of some two billion dollars, for the dual purpose of maintaining United States Bonds at par and of sustaining foreign exchange rates if they dropped below gold parity with the pound sterling. This is one of the deep dark secrets of government fiscal operation, but to the best of available information this fund has never been used.

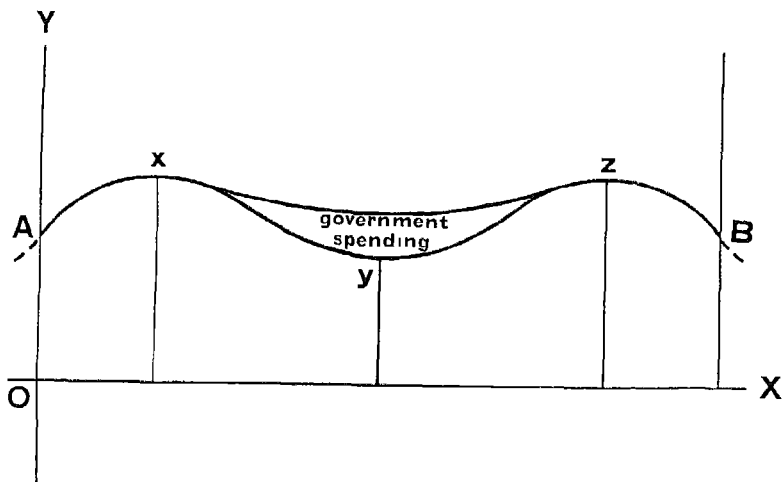
As a fiscal policy, pump-priming was a complete failure as a force for starting and maintaining economic recovery. The President over-estimated the result effects of the quantity theory of money and furthermore assumed the fact that business cycles were a resultant of financial and fiscal phenomena. The economy seems to have little or no inertia which would cause it, once put in motion, to continue in that direction under its own momentum until opposed or diverted by a counter force

Compensatory Spending. When the business cycle turns downward it is because there is insufficient private investment to sustain its further and continuous upward trend. Therefore, to avoid serious repercussions of unemployment and reduced production of goods and services, the government will have to supply this gap or deficiency In other words, the government merely supplies sufficient additional purchasing power to compensate for the gap or deficiency which private investment fails to provide In its

[4]See the so-called gold clause cases. Norman v Baltimore & Ohio R Co, 294 U. S. 240; 55 S. Ct 407 (1935) Nortz v United States, 294 U S 317, 55 S. Ct 428 (1935)

strict sense, the compensatory spending is different from pump-priming in that it may have to be continuous, becoming greater as the cyclical curve drops, reaching its maximum at the curve's greatest depth, and less as it mounts until it is stopped when private investment is able or willing to handle the situation. It does not involve or assume the presence or existence of any multiple or acceleration principles effects, it only compensates for a private investment deficiency, and does not multiply or accelerate spending power

The theory of compensatory spending may be graphically illustrated thus:

EFFECT OF COMPENSATORY SPENDING ON THE BUSINESS CYCLE

During the course of a cyclical recession, as indicated by x, y, z, on AB, the federal government will adjust its volume of expenditures according to its depths, ceasing entirely when the curve approximates a condition of full employment and maximum production.

Compensatory spending by the federal government has been used many times to excellent effect. Cities, states, and the federal government have been urged, and they have often complied, to keep on "tap" great public building projects which may be used when recession occurs [5] Of course, such spending has often had

[5]Donham, W B *Business Adrift* New York McGraw-Hill, Inc , 1931

ther effects than compensatory, but these will be discussed later. VPA and PWA projects after 1933 were largely compensatory. 'o a considerable extent, relief, federal government investments n the railroads, insurance companies, and rehabilitation of inlustrial concerns were to compensate for the depressed economic onditions.

In 1933 to 1939, and later, the income of the farmer had become so low as seriously to affect his existence. The AAA[6] was passed by Congress in 1933, and, together with a parity program, prices and income were calculated to sustain his purchasing power.[7]

As a compensatory fiscal problem of the federal government, the agricultural price support or parity program has become very important[8] When prices of what the farmer has to buy are generally lower than what he has to sell there is no burden imposed upon the government, but when price conditions are in the reverse the Treasury must make up the difference out of general funds. It is obvious that parity of selling and buying of the farmer vary greatly, as the following table shows according to index numbers:

INDEX PRICE OF FARM PRODUCTS AND PARITY ITEMS, 1910-1947

Period	Index Price of Farm Products	Index Price of Parity Items
1910–1914	100 (Base)	100 (Base)
1920	211	202
1921	124	165
1920–1924	151	173
1930–1934	90	135
1935–1939	107	128
Dec 1946	264	213
Dec 1947	301	245

[6]The processing tax of this Act was declared unconstitutional in United States v Butler, 297 U. S 1, 56 S Ct 312 (1936), on the ground that it invaded the reserved power of the States under the Tenth Amendment

[7]To recover those processing taxes collected after the tax provision of the AAA went into effect and before the tax provision was declared unconstitutional, Congress enacted the unjust enrichment tax But the collections from this tax have all but disappeared from the 1949 Budget

[8]*The Tax Review*, "P is for Parity," by L J Norton, March, 1948 Vol IX, No. 3. The Tax Foundation, 30 Rockefeller Plaza, New York, New York.

In the above table, during the period from 1921 to 1939 covering the great depression, the index number of the prices of agricultural products was considerably under the index number of prices of what he had to buy It was during this time that the federal government made enormous outlays to compensate for this deficiency. However, during the past three years since agricultural prices have risen so rapidly above what he has to buy, the parity expenditures of the federal government have all but disappeared except in a very few instances. During 1946-1949, the Agricultural index has climbed above 200 per cent whereas the commodity index has risen about 84 per cent.

In the Agricultural Adjustment Act of 1938, Congress defined parity price and parity income In this Act, parity price is defined as follows:

> parity . . . shall be that price . . . which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodities in the base period.

For the most part, parity price is determined by taking the five-year period from August, 1909, to July 1914, as the base. During World War II, this formula was used to determine the ceiling price of the farmer under OPA

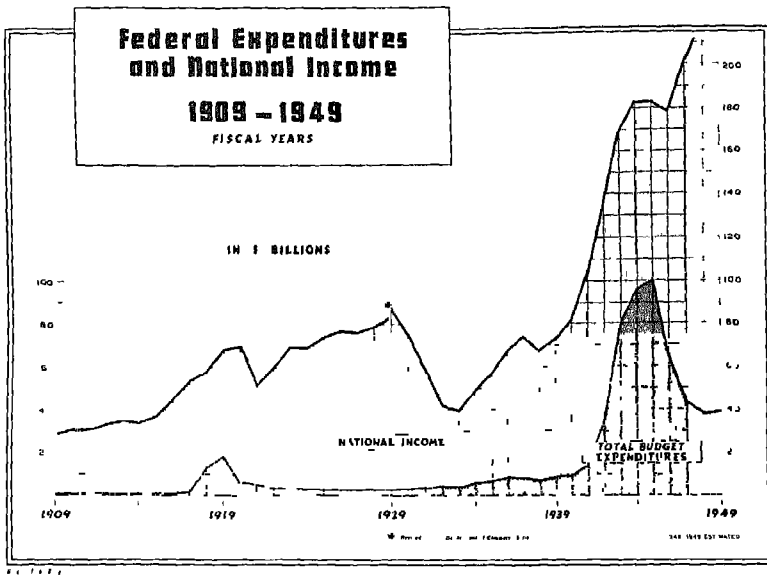
While parity income has never been actually used, Congress also made provisions for it and defined it as follows:

> parity . . . income shall be that per capita net income to individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August, 1909, to July, 1914.

While the price parity program of agriculture has been the cause of great expenditures by the federal government, its effects have not been entirely satisfactory. It has been proposed that the use of an income parity to the farmer would be more equitable and feasible if based upon direct costs and payment to him including wages for labor, and computed upon a more recent base period.

Multiplier Principle of Government Spending. The multiplier principle of government spending is the theory that a given amount of government expenditure on consumption at a particular

time will affect the national net or gross income by something more than the total outlay.

It is an established fact that the secular trend of both the national income and expenditures of the federal government have been rising for many decades. It is also an established fact that, at any particular time, the national net income of the United States has greatly exceeded the expenditures of the federal government, as is indicated by the following curve.

But it should be clearly understood that often a government expenditure intended only for pump-priming or compensatory purposes sometimes has further increment magnifying effects on the economy, especially on the national income This increment increase or expansion effect of a given government expenditure may exhibit magnifying effects through greater personal consumption. This increase in purchasing power released by the government through wages, for example, will pass from hand to hand, before its effect is finally dissipated, and thereby greatly affect the volume of employment. But, due to certain wastages, its increment effect grows less from time to time. Part of this expenditure is diverted by the wage earner at a given time from the

income stream into idle balances, debt cancellation, and hoarding. If the desire of personal consumption were one hundred per cent, or simply unity, the cumulative effect of each dollar of government expenditure would be arithmetical. But due to wastage decrements, with a coefficient of say 10 per cent, the actual effect is from time to time less by that per cent until it theoretically disappears (Thus 1.00 — .10 = .90; 90 — .09 = .81; 81 — 8 1 = 72.90, etc)

What these leakage decrements are depends to a large extent upon the stage in the business cycle, and the particular incidence of the expenditure It is obvious that at its peak the decrements will be small; at its trough, they may be much larger. In a country like England, it has been estimated that the leakage in a depression may be as much as 50 per cent of that of the preceding period which means the expenditure in each successive period is reduced by half In such case, an initial outlay by the government will soon dissipate itself. In the United States, this leakage decrement is estimated as low as 20 per cent so that the expenditure of each succeeding period is at least four-fifths of the preceeding The effect of a given government expenditure upon employment in the United States is vastly greater than in England. Of course, different expenditures have different effects upon this leakage and transfer; but this will be explained later.

Acceleration Effect of Government Expenditures. A theoretical distinction should be clearly drawn between the multiple effect of a particular government expenditure when made upon private consumption and the effects if the same expenditure is made on production, although the two conditions may and usually do operate simultaneously This latter is the acceleration principle

The multiple effect of government expenditure works through consumption and is immediate and direct upon the national income. The acceleration principle works through capital investment and therefore its effect on the national income is indirect

The accelerating principle of an initial government expenditure operates exactly in the same way as the credit expansion in a single independent bank arising out of a single initial deposit

Government expenditures upon income-producing industries, such as the construction industry, may have an initial accelerating effect by increments propagated by a concatenation of time intervals from one cognate industry to another until an optimum point

of employment and production has been reached, after which it is slowly dissipated due to wastage decrements. As already explained these decrements may occur by diverting the sum from the stream income by payment of debts, hoarding, savings, etc

In a practical sense, the multiple and acceleration effects of a government expenditure will operate simultaneously, and spread by time intervals. It is reasonably safe to make the foregoing statements as facts as to their behavior, but to go beyond these points is to enter the realm of pure theory.

Summary. The government budget has become something more than a mere collection of expenditures and sources of income to be submitted by the executive to the fund-raising and fund-granting body. It has become a political document for the purpose of control of the whole economy It contains suggestions in regard to tax levies, lays out a policy of debt management and deficit financing, and may effect changes in the distribution of wealth.

The state is an entity in perpetuity, and must be operated according to the principles of economics It is a great business corporation and must observe the rules of costs in order to give to the tax payers *en masse* the maximum benefits of their contributions Instead of furnishing certain services directly, the federal government has organized corporate entities such as the TVA to supply these needs. These corporate entities have issued to the investing public billions of dollars in preferred stocks, bonds and other securities which have been contingently guaranteed both as to principle and interest by the federal government.

A complete, or multiple budget, should set forth expenditures of the legislative, executive and judiciary; of the economic and social purposes, of certain annexed budgets, and of capital expenditures. The capital aspect of the federal budget is probably the last part to be developed It includes all expenditures for those physical investments, such as buildings, power dam projects and fortifications, which return utilities to the people over long periods of time. In some countries, such as Denmark, no distinction is made in their capital budgets between income-yielding and non-income-yielding physical investments; it is entirely a question of permanency. In other countries, such as Sweden, the capital budgets include only assets which are durable, remunerative and self-liquidating.

Governments today engage very extensively in borrowing, or deficit financing. This whole matter raises the question of balanced budget. Should the budget be balanced annually or cyclically? Since income and expenditures are seldom equal at a particular time, it may be necessary for the government to borrow to meet its outlays It is generally agreed that, except for very short periods, and then only if it devises a definite program of repayment, a government should not borrow for ordinary services. It should only borrow on long-time bases for extraordinary emergencies such as war or construction projects.

The budget may be so managed as greatly to affect the volume of employment and production Expenditures may be made so as to have a pump-priming effect during a depression, which is calculated to start the economy on the road to recovery and expansion. The federal government, during the great depression from 1929 to 1939 attempted to use expenditures in this manner It is extremely doubtful if they had any such effect

Budgeted expenditures may be used so as to fill in the gap as the depression grows deeper. During the great depression from 1929 to 1939 the federal government did so make extensive expenditures and probably to an excellent effect This one effect of expenditures is a proven fact

There is also the assumption that government expenditures on consumption have multiple effects, and public outlays on investments have accelerating effects on the national net income These alleged affects are almost purely theoretical and hypothetical and therefore cannot be regarded completely as established facts That government expenditures, especially on selected income-producing projects, do have certain multiple and accelerating effects on the national net income which are further reflected in employment and production seems reasonably certain, but care should be used that such effects be not overstated, at least until further data have been gathered to verify these assumptions

TEXT QUESTIONS

1. The modern budget is more than a fiscal record What else is it?
2. Why must government and private finance be treated differently?
3. Approximately how many taxing units are there in the United States, and what are their rights?

Criticize the government T.V.A. program from the point of view of private enterprise

Into what five general categories may the federal budget be divided for purposes of analysis?

Describe fully how some operations of the government may render profits?

7 Discuss fully a dual budget system

8. Describe types of government expenditures that should not be considered consumptive

9 How is the balancing of a government budget different from that of a private corporation?

0 It is agreed that certain changes should be allowed under the capital budget. What are these changes?

11. Discuss the capital budget as used in Denmark As in Sweden

12 Justify long and short term government borrowing.

13 Discuss the fundamental purposes of government deficit spending during periods of depression

14 State the fundamental law of prices under competitive conditions, and the fundamental law of prices under monopoly conditions.

15 Discuss fully the "pump priming" policy of the 1930's. Also discuss compensatory spending.

16. What is the multiplier principle of government spending? What is the "acceleration effect".

17 In what manner should a government budget be balanced? For what periods of time?

APPLICATION PROBLEMS

1 During the period of recovery after the great depression of the 1930s, can you point to any specific compensatory, multiple, or acceleration effects of government spending? In other words, can you offer any support for these theories that will show that they are more than mere suppositions?

2. It has been said that the ideal economic situation is full employment and complete utilization of the natural resources and means of production Do you think that government expenditures and a system of taxation could be so designed as to aid in achieving this ideal? Outline and explain such a program

3 Should a government budget itself with interest on its capital investment? What is the consensus of opinion among government accountants not only in the United States but also in other countries?

RESEARCH TOPICS

1 Take the most recent federal budget and determine to what extent it is an investment budget. Do you agree with the point of view that the budgets of the 1930s were really in balance when considered from the investment standpoint?

2 Some economists advocate annual balancing of the federal budget. Others claim that it should be balanced cyclically What are the main arguments on both sides of this question? By referring to the federal budgets during the past several years, can you show any relation between balancing and the cyclical changes in business?

3 How are capital expenditures budgeted in your state? What fiscal policy does your state adopt in regard to obsolescence, depreciation, and upkeep of public buildings and other public construction?

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CHAPTER 12

PRINCIPLES OF GOVERNMENT CREDIT

It is desirable that governments finance all their activities and inctions by taxation. However, there are times when public xpenditures exceed tax income, and governments are forced to ieet at least part of their obligations by borrowing In one sense, ublic credit may be regarded as an additional source of income, o be used only when increased taxation is not economically easible On the other hand, public borrowing is merely *deferred axation*, because at some time in the future the people will be equired to make contributions out of their private incomes to liquidate these government obligations It is not always easy to differentiate between good and bad uses of public credit, or between necessary and wasteful expenditures. But since all grades of modern governments make such extensive use of borrowing to meet at least part of their current expenditures, it is indispensable that the nature and principles of public credit be understood

Nature and Uses of Public Credit. Since very early times, governments have supplemented their incomes by means of public borrowing Early rulers of European countries often exacted loans from their subjects by compulsion, only later to repudiate their obligations Certain early English kings borrowed from their Jewish subjects, only to banish them from the kingdom to avoid paying these loans Under these conditions, it would be improper to associate the term public credit with such transactions, because public credit at present refers to the pledging of the good faith and resources of all the people for the repayment of their public debts. The development of public credit in the modern sense awaited the growth of constitutional and democratic forms of government when the people had acquired some measure of control over the volume of taxation and of the purposes for which expenditures were made.

Quesnay (1694–1774) and his contemporaries, of France, writing about the time of the French Revolution, contended that as a government accepted democracy, and thereby came under the control of its people, its expenditures would decrease and its

taxes would become more equitable. But in the first assumption they were wrong because when the people spend for their own benefit they are likely to use such privilege very lavishly

Some modern authorities contend that the use of public credit has resulted in a step away from popular control of governmental fiscal affairs. Under ordinary circumstances, it has been claimed that when government is financed by taxation its people will have and will exercise some check upon public spending because tax demands affect them so directly On the other hand, any government whose expenditures are met by loans may, for a time, administer the financial affairs independently of those who must finally settle the account.

In the light of modern practice there seems to be a measure of truth in these contentions. During the period from 1933 to 1939, many local governments were virtually bankrupt, and not a few states were in default on their obligations because of excessive borrowings. At that time, the debt of the federal government was mounting steadily, partly because it could be increased without the direct consent of the people, and partly because it seemed to be an easy means by which purchasing power could be raised for public spending.

The ease with which public credit may be used has lulled many a governmental unit into a state of financial chaos and ultimate inflation. It is quite certain that, when a proposal to make large governmental expenditures is submitted to the people for authorization, if each voter were required to include his proportionate contribution of the outlay along with his ballot, many projects would fail at the polls But as it is, when the voter is asked to authorize a public loan, such loan does not immediately affect his income or savings. The ultimate tax burden, if the taxpayer takes the matter into consideration at all when he votes for its authorization, is so remote that it becomes of little importance to him This tendency to discount the future has encouraged extravagant expenditures by democratic governments, supposedly out of an apparently inexhaustible supply of easy public income Such spending is economically unsound and often becomes fantastic and wasteful

Principles of Public Credit. Credit in general may be defined as the right which one acquires to enjoy a good or service at some particular time with the privilege of paying for it in the future.

Public credit is a branch of credit in general and refers to the ability of a government to borrow, usually from its own citizens, with a promise to pay at a later time. There is, therefore, only a technical distinction between private and public credit, and both are founded upon trust, confidence and good faith which the creditor has in the promise of the borrower to meet obligations as they fall due. Public credit may involve any one or more of several types of negotiable or non-negotiable instruments, which will be discussed later along with the forms of the public debt and the problem of collateral security.

Governments enjoy a credit rating in much the same way as do individuals and private corporations. In determining the credit risk of the borrower, the lender usually takes into consideration such conditions as character, capacity, and capital. In the case of a government, character refers to the integrity and willingness of the people and of the administration to meet their obligations as they come due In dealing with a sovereign power, the creditor is usually at a distinct disadvantage, because the debtor can only be held to a moral obligation Federal and state governments may be sued only with their consent;[1] moreover, only under certain circumstances may court actions be brought against local units, either for debts or tort liability.

Concerning the use of public credit and the safety of government securities, Professor H C. Adams has left a classic discussion of these subjects in these words.

> Quite a number of facts are implied in this statement that a government bond is a form of commercial paper, and that it is drawn as a contract between a borrower and a lender of capital, for, although the form of public credit is the same as that of private credit, its life or its character is essentially different In the first place, although the transaction is in the form of a private contract, it cannot be overlooked that one party to the contract is a government invested with sovereignty, while the other is an individual vested with the rights of private property, from which it follows that the security which underlies a public bond, and without which it can possess no value whatever, is different from the security that underlies ordinary commercial paper Confidence in a private bond is due to the fact that it is a mortgage as well as a note; that is to say, the contract gives the lender the right to enter

[1] Such consent has been provided by Act of Congress, to sue the federal government, together with appropriations to pay the claims The Court of Claims which sits in Washington has been constituted for hearing and allowing these claims.

into the possession of some definitely described property in case the borrower fails to meet his obligation. The holders of railway bonds, for example, can seize the property of the road, or of such portion of it as is mentioned in the bond, if the corporation fails to make payment of interest or of principal according to the terms of the contract. The lender in this case finds this security in the contingent ownership of a specific piece of productive property.

There can, however, be no such security in the case of public bonds, for the State, although a party to a commercial contract, is at the same time a political sovereignty, and for that reason cannot be approached by any of the ordinary legal processes This explains why a public bond is not commonly drawn as a mortgage but as a simple promise to pay; and, except when very weak or semi-barbarous states borrow money, the addition of the mortgage clause would not increase the confidence which a lender might feel that his money is safely invested. The State, being sovereign, cannot be sued except under conditions which it itself prescribes, and even then, since there is no one higher in authority than itself, it must be the judge in its own case

Upon what, then, rests the confidence of the public that money loaned to the government is well invested? The answer to this question is a simple one A modern State is obliged to maintain its credit in order to retain its influence. The difference between three per cent and six per cent in the ability of a government to borrow money is the difference between strength and weakness. An army may be defeated, warships may be destroyed, but as long as resources are abundant and at the command of the government at reasonable rates, that government may still retain its influence in the councils of the nations. It is the instinct of self-preservation which causes a public minister, jealous for the power and dignity of the government he represents, to be solicitously anxious that all public agreements should be strictly and even generously fulfilled It is the importance of public credit to the State, taken in connection with the difficulty of its establishment and the ease with which it may be shattered, that is the basis of the confidence of lenders in the promises of a government The reasoning upon which this conclusion rests is the same as that which leads a banker to regard a bill of exchange as the safest of all ordinary investments Such bills must be honoured at maturity, or the man against whom they are drawn cannot longer continue in business [2]

Capacity raises the question of the uses or purposes to which borrowed funds are, or have been, put. Credit may be usefully

[2] H C Adams, *The Science of Finance* (New York Henry Holt and Company, 1899), pp 518–519. Quoted by permission of the publishers

and productively employed, thereby rendering the financial position of the borrower more certain, or it may be put to wasteful and uneconomical purposes, thereby impairing the debtor's ability to pay. Credit may be used as a means for the direct creation of wealth by acquiring or creating capital goods which represent an addition to the total social wealth of the community. Such goods may be expected to yield a tangible or intangible return in the future.

Governments invest heavily in expensive buildings, internal improvements and public works, which are both socially advantageous and productive, though they may yield no monetary return in dollars on the invested capital. More recently, federal, state and local governments have been making investments that may be regarded as commercial undertakings, as for example, loans to the railroads, to various commercial enterprises, to farmers and to home owners. In certain cases, as that of aiding defunct banks during the bank holiday of 1933 to about 1937, the federal government took preferred stocks specially issued to the Government as collateral to guarantee the loans. These loans by the federal government are expected to be repaid with interest sometime in the future. Various power projects built by the federal government, of which the Tennessee Valley Authority is an illustration, represent a heavy capital investment upon which a return may be expected ultimately.

Economic Usefulness of Public Credit. Authorities differ with respect to the purpose for which public credit should be used, and as to the proper time for making loans. It has been stated that the usefulness of public credit depends upon the manner in which borrowed funds are invested It is a general rule that public credit should be used only to supplement the current income of the state after the various taxable sources have yielded all that may be economically expected of them; and never in their stead. Public credit should be used as a source of funds only when the financial burden becomes too great for the immediate and current income to handle.

Even in normal times, government expenditures and revenues do not run parallel for any considerable period of time. At times, one may exceed the other. Thus, the ideal fiscal system of a government is not a continuing deficit or a surplus, but a periodic alternation between these two fiscal conditions. The proper use

of credit is to take care of these temporary variations between surplus and deficit.

A deficit may be caused by an unforeseen shrinkage in income, due to general business depression, with the expectation that with recovery it will turn into a surplus of revenue. Under such circumstances, it is quite legitimate for the state to borrow on a short-time basis to meet temporary deficits, with the expectation of liquidating these obligations as improved business conditions yield a surplus. In other words, government economists have learned that during normal times the surplus-deficit procedure has proved the most economical method of administering the fiscal affairs of a government

At times, however, the deficit may be something more than a mere temporary fiscal condition, as for instance, a deficit due to a great catastrophe, such as a war, or a prolonged business depression Under such circumstances governments may be forced to use their credit to a large extent, making loans on a long-time basis But for ordinary running expenditures governments should be very sparing in the use of their credit; otherwise, an inflation of prices might develop.

Avoiding Deficits. According to the foregoing discussion, government deficits may result from, first, temporary excess of expenditures over current revenue; second, sudden and unforeseen emergencies; and, third, the state's desire to engage in commercial enterprises

The practices of governments have evolved several methods by which deficits may be either reduced or entirely avoided In the first place, governments have attempted to reduce expenses The federal government has recently been effecting certain economies by reducing its personnel, by a reorganization of its departments and by numerous other methods. But do what it may, no substantial reduction of ordinary government expenditures has thus far been effected by these means, and no great amount of decrease is anticipated in the future It is not always possible to reduce many expenditures, at least beyond a certain point, because of the danger of interfering with the efficiency of governmental operations.

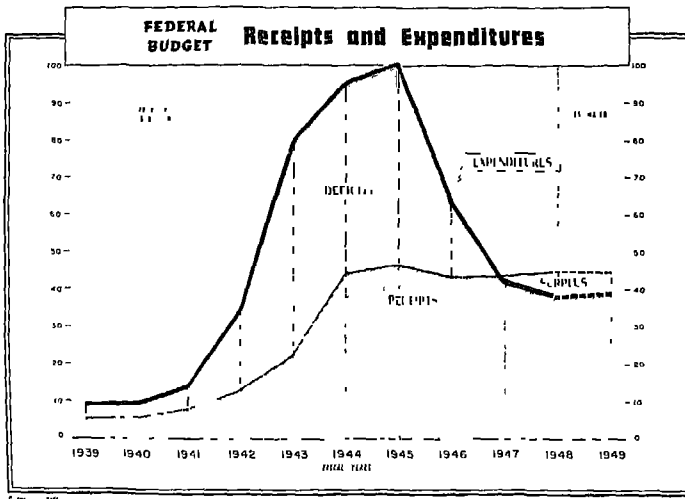
Another method of reducing expenses is by the discontinuance, or temporary suspension, of certain functions But this method also has obvious limitations because there is always a certain

irreducible number of operations which a government must perform to justify its existence The rule of public expenditures seems to be that governments are not only continually performing old services in a more elaborate and extensive manner, but they are constantly adding new ones to the list Experience has shown that it is comparatively easy, especially during good times, for a government to assume new functions, but once these have been added it becomes very difficult, if not impossible, even during a period of depression, to drop any of these services. In fact, during depressions, it often becomes increasingly necessary for governments to augment certain public expenditures

Possibly one way of avoiding deficits is to increase the state's revenue by tapping new sources of income, or by increasing the yield from the present system of taxes. But either one or both of these methods may not be feasible or desirable because, in the first place, it is not always easy to find new sources of revenue which, when employed, would do equity among taxpayers Generally, it is not difficult to devise new taxes, but the question arises as to whether they can be imposed without doing injustice to certain groups, or bringing positive injury to the economic processes as a whole In the second place, it may be still less desirable to increase the rates on the old taxes because of the economic damage which may be imposed on the processes of production, consumption and the distribution of the national income The question of new taxes or additional rates are possibly two of the most difficult problems before Congress when this body periodically comes to enactment of a new Revenue Code

If the excess of public expenditures over current revenue seems to be a condition that may be expected to continue for an indefinite period, governments may find it necessary, as the lesser of two evils, to resort to any or all the methods just discussed to increase their incomes

Occasionally, governments have accumulated reserves upon which they may draw in times of need. Several serious objections may be raised to such a fiscal policy. In the first place, the accumulation of a reserve means that at some time in the past a higher tax was imposed than was needed to meet current expenses The effect of this excess levy was the withdrawing of purchasing power from the channels of manufacturing and commerce. In general, hoarding by the government is indefensible It is a practice which

should be followed only under the most extreme conditions because of its depressing effect upon the economy. In the second place, the presence of a reserve is always conducive to wasteful spending. The legislature is always tempted to use this fund for some "emergency," or to "borrow" it with the expectation of future replacement, and of course it is never "repaid" Then, too, a reserve is not usually kept in cash or perhaps in immediately cashable items, but it is shifted from one form of investment to another until it becomes a "frozen" asset, which often destroys its usefulness as a reserve. Today, governments seldom resort to the accumulation of a reserve to provide funds for the unforeseen expenditure, whether for an anticipated deficit or for an expected emergency. Governments frequently do create sinking funds These are usually earmarked for some particular purpose and should not be confused with the term "reserve" The use of sinking funds will be discussed presently. The experiences of the federal government in regard to deficits and surpluses is shown by the following curve

The first deficit occurred in 1931, but it did not reach large proportions until 1939 when a shift was made to war preparations Since 1947, an increasing surplus has been accumulating

The usual and most acceptable procedure today, when public expenditures exceed current income, is for the government to

provide the difference by resorting to certain more or less complicated methods of borrowing now to be discussed.

Public Debt Duration. Public borrowing is a means of supplying the government with immediate purchasing power for an emergency, thereby permitting the distribution of these extraordinary expenditures among the taxpayers over a period of time Taxpayers are assessed immediately for interest charges, and for an amortization, or sinking fund — if such means of ultimate repayment is adopted. These funds usually amount to about five per cent of the total debt. Such loans may be floated as long-term or as perpetual obligations The perpetual debt has no fixed maturity date for the payment of the principal. The only periodic charge upon the expense of the state for the perpetual debt is for interest. This type of debt has never been used in the United States, except in the form of irredeemable paper issues, as the greenback or the United States Note, although it is commonly found among many European countries

The obvious advantage of a debt without a date of maturity is that the state can never be in default of payment of the principal But, unfortunately, this device might be an inducement to over-borrow and a source of extravagance and inflation. The long-term debt usually carries a maturity date of five years or more and, except for interest charges, imposes no immediate financial burden of repayment upon the taxpayers Interest charges must be considered as additional costs above what the total would have been if the government outlay had been financed by an immediate tax levy. If the rate of interest were, say four per cent, the debt would be doubled in twenty-five years, not compounded. At present, the annual average interest rate is about 2 per cent, which makes the total budgeted service charge on the federal debt approximately five billion dollars ($250,000,000,000 × .02 = $5,000,000,000) This is a greater sum than is being spent by the federal government for all ordinary purposes in the United States Governments have been attempting to reduce these debt service charges, either by offering less interest on their loans, or by calling in their obligations and by reissuing them at lower rates of interest England has recently reconverted its public debt at a much lower rate of interest

Governments often find it convenient, and sometimes necessary, to make temporary or short-time loans. These may have

maturity dates running from a few days to several months. They may arise, first, because of a temporary decrease in revenue, or a temporary increase in expenditures, second, in order to secure funds in anticipation of taxes not yet due; and, third, because of some item which was inadvertently omitted from the budget. Loans of this character make it possible for governments to smooth out temporary discrepancies between income and expenditures, thus making it possible to keep the expenditures and income of government in close adjustment

Governments now use extensively what might be called intermediate loans. These obligations usually have a maturity date of from one to five years. This class lies between the so-called long- and short-time loans. Here, the chief purpose is to afford a temporary means of securing funds in anticipation of consolidating the entire obligation into one loan issue. This method is quite generally used by governments during wars or at other times when large sums are needed. When this method is used, a series of short-time loans is made, and later, when the interest rates are more favorable, these obligations are consolidated into one long-time issue England has used this procedure quite generally, giving rise to the English Consolidated Loans, or the English Consols The federal government used this method of financing large borrowings during World Wars I and II.

Another type of income which, although of little comparative importance today, yields something to a few European governments, is the annuity. Arrangements may be made whereby an individual may turn over to the government either cash or property, to be invested or used by government, in return for which the individual receives a fixed income for life At the death of the beneficiary, or even earlier in some cases, the government acquires full ownership to the property, and, of course, to all the future income. Until the present time, the use of this practice has been unknown in this country, although it has been used in England for many years Since the introduction of the old-age pension system, a few states have made arrangements to take title to the homes of aged people who are no longer able to support themselves, and to pay a certain monthly income until the amount paid is equal to the value of the real estate This method merely provides a means of old-age assistance, and should not be classed as a form of income to the state It is scarcely an annuity in the strict sense of the term.

Mention should be made of the importance which public loans may have to the private economy. As a rule, government bonds represent the safest form of investment; their yield is often known as the non-risk rate of return or the non-risk rate of interest. They are bought by those to whom safety of investment is more important than large returns, by recipients of fixed incomes, by savings banks, by insurance companies, by pension and trust funds, and by the wealthy who are anxious to invest in securities the income of which is partially and sometimes even entirely free from taxation.

Government bonds also represent one of the most liquid forms of assets that may be possessed. The federal government makes certain that there is always a market for its bonds. The Federal Reserve Board or Board of Governors and Federal Reserve Banks may buy and sell government bonds in open market operations thereby regulating their market price.

Financial institutions, such as banks and insurance companies, and private individuals find it convenient to invest part of their funds in such readily cashable assets. Large corporations frequently invest their reserves, depreciation and obsolescence funds, and money put aside for future tax payments, in government bonds. This privilege is also particularly valuable to the small bank which, from time to time, has small sums of redundant funds to invest, and demand obligations which it must be able to meet in cash. In this country, certain federal bonds are used as collateral security behind Federal Reserve Bank notes, and were also used to guarantee the National Bank notes until provisions were made for their retirement a few years ago. The National Banks now maintain lawful cash reserves behind the notes yet outstanding for their redemption.

Forms of Public Debt. There are various motives which induce people to lend to their government. Compulsory loans have already been mentioned, but this method has never been used in this country except possibly through the issue of the greenback made legal tender. In many cases, people invest in government bonds for purely patriotic reasons. During World War I in 1917–1918 people purchased three and a half and four per cent Liberty bonds to help win the war, when they could have had twice that return by investing in industrial enterprises.

In most cases, government borrowing should be on a strictly business basis, notably by the offer of attractive rates of interest. At present, government borrowing is extremely easy because money is plentiful, and other desirable investments are difficult to find

Before discussing the various forms of public debts, it should be said that it is not a matter of indifference to the government as to the choice of credit instruments to be used or their maturity There should be a proper balance of issues so that the government will be able to appeal to various types of investors, and to distribute its obligations so that they will fall due at convenient times Governments, like individuals and corporations, try to arrange their debts, as far as possible, so that they can be met at intervals throughout the period of the loan. In 1931–1936, maturities were widely distributed to cover a period of twenty-five years Of the total outstanding debt at the end of 1936, arrangements were made for only eleven per cent to fall due in any one year However, borrowing to meet the needs of a war or of other great catastrophe often upsets an orderly arrangement of maturities and their distribution among various types of credit instruments.

Types of Federal Securities. While, at this point, it is not the purpose to enter into a lengthy discussion of the various securities of the United States Government, a brief mention of their character will explain the present composition of the federal debt Of the various securities that were issued or reissued prior to World War I, the three per cent Panama Canal Bonds of 1961, the two and one-half per cent Postal Savings, redeemable at 100 after one year from date of issue, and the three per cent Conversion Bonds of 1946–47 have been retired The Panama Bonds were originally issued to build the canal The Conversion Bonds represent reissues chiefly of the old two per cent Panamas

The United States Treasury Bonds represent the long-time debt of the federal government. The interest rates of the various issues range from two and one-half to four and one-fourth per cent The period outstanding is from about fifteen to thirty years During the last two decades, the market prices of the various issues of Treasury Bonds have ranged quite widely In the latter part of 1931, and during the first few months of 1932, every security in this class dropped below par, some as much as seventeen

points. This was the period when the country was rapidly sinking into the depths of the depression Since the middle of 1932, the market price of United States Treasury Bonds has mounted steadily until in 1936-37 they attained a new high level It is interesting to note that, during the first part of 1937, the market prices of long-term bonds and short-term obligations moved in opposite directions, the long-time bond moving up more rapidly. Institutions, such as banks and insurance companies, concentrated on these long-time obligations as one of the safest of investments, which probably explains this behavior This demand was one factor which caused bond prices in general to rise During depressions, investors usually prefer credit investments, such as bonds, to proprietary paper, such as stocks; whereas, during prosperity the reverse may be true.

To show how closely United States Government securities are tied to general economic conditions it is only necessary to recall what happened during the spring of 1937 The general commodity price level was rising so rapidly at that time that government officials in Washington became concerned about the possibility of an over-expansion of credit This caused the Board of Governors of the Federal Reserve System to announce on January 30, 1937, that member bank reserve requirements would be increased by 33⅓ per cent, the full amount permitted by the law at that time, half the increase to be effective on March 1, 1937, and the remainder on the first of the following May

No disturbance was anticipated in the general money market, but the shock of such drastic reduction of surplus balances proved to be unexpectedly severe The elimination of the major part of these reserves, at a time when a large increase in the demand for commercial loans was expected, caused many banks to dispose of government securities in order to build up a supply of funds to meet these new reserve requirements This wholesale dumping of securities on the open market brought the price of Treasury Bonds down to a level which was more than five and one-half points lower than had prevailed earlier in the year

To sustain the market of government securities, and to check their downward trend during the second half of 1937, the Open Market Committee of the Federal Reserve Board, now Board of Governors, announced on April 4 of that year that Reserve Banks would begin buying United States Bonds in open market On September 12, 1937, at the request of the Federal Reserve Board,

the Treasury desterilized $300,000,000 of inactive gold. This released additional funds which could be used as a credit base These two steps were sufficient to renew the demand for government securities, and all long-term Treasury Bonds substantially recovered

Largely for the purpose of appealing to the small investor, another type of government obligations was issued. On February 4, 1935, an amendment to the Second Liberty Bond Act was approved which authorized the issuance of United States Savings Bonds This Act provided that each bond be issued at a discount to mature in not more than ten years These bonds were issued in amounts of $25, $50, $100, $500, and $1000 maturity values, and were intended to appeal primarily to persons with only small amounts to invest These bonds were sold at 75 per cent of their maturity value, and may be redeemed at any time after sixty days from date of issue.

Section 22 of the Second Liberty Bond Act provided that it shall not be lawful for any one person to hold at any time Savings Bonds issued during any one calendar year in an aggregate amount exceeding $10,000 maturity value Bonds held as a trustee, or as a fiduciary, or in which the one in possession had only a future interest, were not to be included in the above aggregate amount. These bonds were not negotiable, and were not callable prior to maturity. For tax purposes, the difference between the purchase price and the redemption value, whether at or before maturity, was considered as income.

Another type of government security was the Adjusted Service Bonds. They were issued to veterans of the United States in the first World War in payment of amounts due on Adjusted Service Certificates. They were exempt, both as to principal and interest, from all taxation, except estate, inheritance and gift levies

United States Notes (not the greenbacks) are used chiefly as an intermediate source of funds Maturity dates range from one to five years The interest rates are usually much lower than on bonds. They make excellent tax anticipation purchases, and many business concerns take advantage of this opportunity Treasury Notes differ from bonds chiefly in that they are issued on short maturity.

The present debt of the United States also includes Treasury Bills These were first legalized in this country by Congress in an amendment to the Second Liberty Bond Act in December, 1929,

as a medium for raising temporary loans. Treasury Bills are a promise of the federal government to pay a definite sum of money on a certain date. They are issued in convenient denominations of $1000, $10,000, $100,000, $500,000, and $1,000,000, and are especially attractive to the large investor on Wall Street. They are bought and sold only on a discount basis. These bills are offered by the Treasury for competitive bidding which insures a better reflection of the money market than if a discount rate were fixed in advance. The difference between the amount at which these bills are bought and their face value represents the interest on the investment, or profit, to the investor. This type of security has proven to be a very valuable credit instrument both to the federal government as a quick means of raising revenue and as a good investment to the short-time lender.

Under the provisions of the Gold Reserve Act of 1934, the Treasury was authorized to issue obligations of the United States Government on a discount basis which had a maturity not to exceed one year from date of issue. In the past, these bills were issued only for 30, 60, or 90 days, although 182- and 273-day periods seemed to have been preferred.

The use of Treasury Bills gives both money market and investors a greater variety of short maturities. Treasury Bills are particularly attractive to large taxpayers, especially when the dates of payment of their taxes do not fall at particularly convenient times. They may invest in these bills and later turn them over to the government in payment of taxes. These bills usually sell on the market at a low discount rate. They are used extensively by individuals and corporations for other than investment purposes. Under an Act of February 4, 1935, which amended the Second Liberty Bond Act, the face amount of Treasury Notes, Certificates of Indebtedness and Bills was not to exceed in the aggregate $20,000,000,000 outstanding at any one time. This law is still in effect.

Still another type of credit instrument which a government may use in supplementing its income is the Treasury Tax Warrant. This device is used when available funds have been temporarily exhausted, or when appropriations are not yet available. Local governments have used this type of credit instrument very extensively. The tax warrant is an order, not dissimilar to that of a check, which is drawn on the Treasury. It is drawn by an authorized official, and is used to pay current expenses of the

government When issued, it is understood that there are no funds in the Treasury to pay it, and that it represents a claim upon future tax levies When the credit of the government is good, these warrants are likely to circulate freely at or above par among the members of the community They may even be sought as investments by banks and individuals In many cases, they are the only means by which the local government may pay wages and salaries to its employees or other creditors In this manner, they represent a forced loan upon such creditors. During the great depression from 1929 to 1939, many local governments were forced to pay school teachers and other public officials in tax warrants. In many cases, these tax warrants were received by local merchants and banks at a considerable discount which condition was tantamount to an enforced reduction in wages

The principal danger in the use of warrants, or of certificates of indebtedness, is that since they are issued in anticipation of taxes yet to be paid, next year's income may be spent in advance Taxpayers are usually permitted to present these warrants in lieu of payment of taxes in money. The government may therefore find itself in possession of cancelled credit instruments without funds to meet current expenses In that event, governments are forced either to issue new warrants or to borrow. This pyramiding of debts sometimes brings local units into financial difficulty

Government Borrowing and the Banks. Practically all the important banking systems of the world were created principally for the purpose of lending financial aid to their governments during great emergencies. The Bank of England was organized in 1694 to aid the king of England in financing foreign wars; the Bank of France was created in 1800 by a decree of Napoleon to help him in his conquest of Europe; the Reichsbank was organized in 1875 to aid Germany in reconstruction after the Franco-German War of 1870–71.

In general, banks may render this aid by (1) making short-time loans to the government, (2) acting as fiscal agents for the sale of government bonds and other securities, (3) serving as government depositories, and (4) issuing paper money Each of these methods should be carefully differentiated as to their political and economic effects

England has perhaps developed the technique of short-term borrowing through banks further than any other country in the

world. The Bank of England makes two kinds of loans to the government, which, in technical terms, are known as bank advances, and ways and means advances. The bank advance is a loan to cover temporary deficiencies which may arise out of debt charges. In this case, when it is a matter of short-term borrowing to meet interest and other charges on public debt, the Treasury has the authority under a permanent statute to secure such loans But if the deficit arises out of ordinary departmental operations, and a loan known as ways and means advance is needed, the Treasury must either find authority in the appropriation acts, or ask Parliament for specific approval. In either case, only the amount that is necessary to meet the immediate need may be borrowed. Under no circumstances are these loans to result, either directly or indirectly, in a permanent addition to the public debt. This explains why they must be made only in amounts that can be liquidated out of current income, and definite plans to this effect must be made when the loan is floated

For many decades, the English government has used the Treasury Bill as a means of securing short-term loans At present, these bills may be issued for periods not to exceed one year They are employed to raise funds to meet temporary deficiencies They do not carry a definite rate of interest. The income to the investor depends upon the discount at which he is able to buy these instruments If authorized by Parliament, these Treasury Bills may be renewed and thus in effect become part of the permanent debt.

The Exchequer Bond is also an important credit instrument which has been used extensively by the English government, especially to finance certain capital expenditures Exchequer Bonds were issued in connection with the acquisition of the British telephone system, and also when the coal mines were nationalized. The recent nationalization of the Bank of England was accomplished by the government's purchasing the stock. During World War I, Exchequer Bonds were used to a limited extent to supplement other sources of income

In the United States, the Federal Reserve System serves, among other functions, as fiscal agent for the government in the flotation of loans and the sale of securities, and as a depository of public funds As a matter of practice, the Secretary of the Treasury, under the authority of the President, decides upon the terms and conditions of the loans, within the limits fixed by Congress.

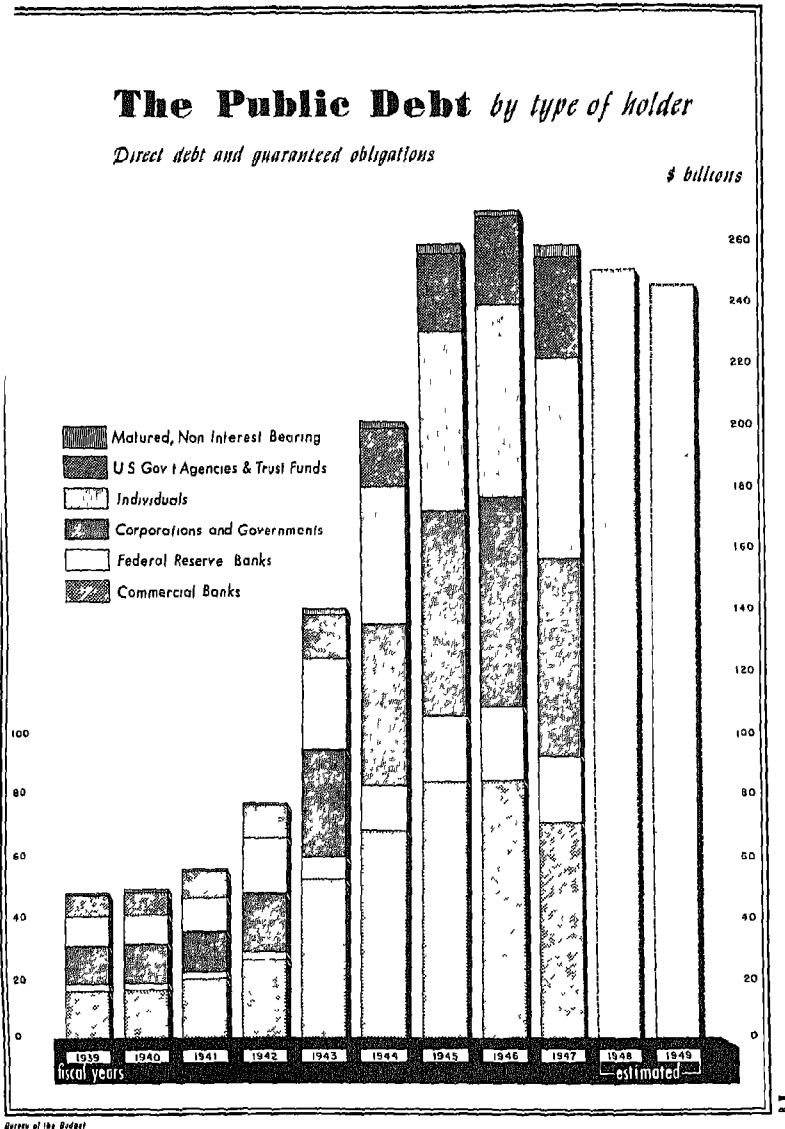
He then refers the matter to the Federal Reserve Board, now the Board of Governors, which, in turn, apportions the amount among the twelve Federal Reserve Banks and their members The investing public and finance houses usually acquire their securities from these member institutions Later these bonds are printed and distributed.

In the United States, the first and second Banks of the United States were organized, respectively, in 1792 and 1816 to act as depositories of the federal government, to handle the national debts and to issue sound paper currency. During the Civil War, the National Banking System of 1863 was specifically organized to aid the federal government in the sale of its bonds. The inauguration of the Federal Reserve System was expedited in 1913 and 1914 in anticipation of World War I which at that time seemed inevitable Nations today are dependent upon their banking systems to such extent that, without this support their fiscal requirements could hardly be met.

Because the banking systems of the United States perform such important part in public debt management it is to be expected that a large part of the federal securities will be held by the various individual banks as investments. The chart on page 288 shows the public debt by type of holders, among which are Federal Reserve and commercial banks

Debt Redemption. Except those debts that are permanent, all obligations of the government must some day be liquidated Governments may meet their debts, first, by delivering cash to holders of bonds when they fall due; second, by going into the open market and buying their own securities; third, by conversion, and, fourth, by creating a sinking or reserve fund.

It is needless to say that if the government is to redeem its obligations in cash as they fall due, there must be a surplus of revenue over expenditures As a rule, this method of debt payment is followed; wherever possible it is the most desirable method

At times, a government may retire its issues by purchasing its obligations in the open market But, as a rule, this is advisable only when its bonds are selling below par. At such times, a government may buy its own debt obligations for the purpose of strengthening or sustaining the market It then becomes necessary to watch the market carefully and to buy at the proper time.

In most cases, the federal government will receive its own obligations at face value in payment of taxes When security prices are favorable, businessmen often take advantage of this

opportunity Some years ago, when foreign governments were making payments on their war debts, they seized every opportunity to purchase United States bonds at a discount, which they later delivered to this government as a means of payment When England was paying on its World War I debt, a special agent was kept in this country to watch the United States bond market and to make purchases when any could be had below par

As a general rule, many governments issue their bonds in series In this manner, arrangements are made for portions of the total issue to fall due at stated intervals Practically all Treasury Bonds and Notes of the United States are now issued in this form The practice of serial bond redemption is not uniform among all governments, and the procedure may vary according to the circumstances of each particular case The idea of the sinking fund as a means of debt redemption has been widely entertained in this country It was first theoretically considered by Alexander Hamilton soon after the Revolutionary War as a means of paying the debt which grew out of that struggle But the sinking fund was not seriously put into actual practice until the Civil War when the law provided that the gold coin received as duties on imports should be applied, first to the interest on the public debt, and, second, to the redemption of one per cent of the total outstanding bonded obligations of the United States. The Funding Act of 1870 merely eliminated the use of interest on redeemed bonds for redemption purposes, but otherwise left the annual purchase provision of the Civil War law unchanged

The present cumulative sinking fund was created in the Treasury by Section 6, Subdivision (a) of the Victory Loan Act on March 3, 1919, with later amendments It provided for the retirement of all obligations which had been issued under the various Liberty and Victory Bonds Acts and which were yet outstanding on July 1, 1920, and for all securities subsequently floated According to these provisions, the average cost of the bonds and notes purchased was not to exceed par and accrued interest, and they were to be canceled and retired and not reissued Beginning with July 1, 1920, there was to be appropriated each year an amount of money for this sinking fund equal to two and one-half per cent of the face value of all bonds and notes outstanding on this date, and also for the interest which would have been payable during the year on the bonds and notes purchased or redeemed.

Section 308 of the Emergency Relief and Construction Act of 1932 provided that for each fiscal year beginning with July 1, 1934, "there shall be appropriated to the general cumulative sinking fund an additional two and one-half per cent of the expenditures made under this relief act." Section 210 (b) of the National Industrial Recovery Act provided for an annual appropriation, beginning with the fiscal year of 1934, an additional amount to the general cumulative sinking fund equal to two and one-half per cent of the expenditures made under this law.

These sinking funds have been placed in the care and at the discretion of the Secretary of the Treasury; but a consistent policy has not always been followed Because of extraordinary conditions, deposits to the credit of these sinking funds have not always been made according to law In a few cases, sums have been borrowed to be placed to these accounts In so far as improving the faith of the public in the credit of the federal government, or in facilitating the payment of its debts, the sinking fund is a questionable device. The fund may be easily dissipated by a benevolent legislature, or shifted to other types of investment In this manner, the fund becomes useless. When it is used as a method of debt liquidation, care should be taken that the sinking fund does not become a source of wasteful expenditures, or a cause of the increase in the permanent national debt

Tax Immunity. The question of exemption from taxation of incomes derived from federal, state, county, and municipal bonds, and also of the salaries and wages paid to all government officers and employees, has been widely discussed in this country The question arose as to the extent to which one sovereign government could interfere with the exercise of constitutional power of another From the standpoint of equity, why should such incomes be put in a preferred class and exempted from contributing to the expenses of government? Is such exemption an unfair and unjust discrimination? In fact, approached from any angle, the question presents a series of legal and economic complications It is only recently that anything like a uniformity of action has been attained by the state and United States Supreme courts, and by Acts of Congress.

The answer to these questions lies partly in the division of sovereignty between the federal and state governments, and partly in the realm of abstract justice. The United States Supreme

Court for a long time held that the federal government could not tax the instrumentalities of the states, nor the states the instrumentalities of the federal government. Chief Justice Marshall established this rule when he said, "The power to tax involves the power to destroy; that there is a plain repugnance in conferring on one government a power to control the constitutional measures of another, which other, in respect to those very measures, is declared to be supreme over that which exerts the control, are propositions not to be denied."[3]

In Dobbins v. Commissioners of Erie County[4] the state sought to tax the captain of a revenue cutter of the United States, who was appointed by the President and whose compensation was fixed by Congress. The court unanimously held that the tax could not be applied to the federal officer, on the grounds that if the state had that power, it could interfere with the discretion of Congress as to the amount of compensation it paid its officers.

That decision was followed a generation later by Collector v. Day [5] In this case the federal income tax was held invalid as applied to a judge of the Massachusetts Court of Probate and Insolvency The opinion, by Justice Nelson, dealt chiefly with the question as to whether there was a similar limitation upon the taxing power of the federal government Reasoning that the state, as well as the federal government, was constitutionally independent within its sphere, the court concluded that the federal taxing power had no supremacy sufficient to override the state's reserved powers.

Some of the older opinions had contained intimations that the state immunity from taxation related only to "governmental functions." The qualification was definitely established in South Carolina v. United States [6] The state had established dispensaries for the exclusive sale of liquor and the court sustained the imposition of the federal license tax. The court assumed that the federal government could not, through taxation, "prevent a state from discharging the ordinary functions of government." But for fear "the National Government would be largely crippled in its revenues," the court was induced to deny immunity, placing some reliance upon the fact that functions such as these could

[3]McCullough v Maryland, 4 Wheaton 316 (1819)
[4]16 Pet 435 (1842)
[5]11 Wal 113 (1870)
[6]199 U. S 437 (1905)

not have been contemplated by the framers of the Constitution. The court concluded that private business was not withdrawn from the federal taxing power simply because it was conducted by the state.

Again, in Allen v Regents of the University System of Georgia,[7] the court held that collecting admissions for football games at state universities was not an essential governmental function "When a state embarks in a business which would normally be taxable, the fact that in so doing it is exercising a governmental power (education), does not render the activity immune from Federal taxation."

In Flint v Stone Tracy Company,[8] the court introduced a qualification to the broad doctrine that neither the federal nor the state government could tax the compensation paid an employee of the other. Some of the corporations that assailed the corporate excise tax of 1909, which imposed a tax measured by the net income of corporations, objected that they "act as trustees, guardians, etc , under the authority of the laws or courts of the State " The court rejected the claim for immunity because.

> Such trustees are not agents of state government in the sense which exempts them from taxation because executing the necessary governmental powers of the state. The trustees receive their compensation from the interests served, and not from the public revenues of the State

This principle of reciprocal freedom from taxation was further stated by the Supreme Court when it said, "As the States cannot tax the powers, the operation, or the property of the United States, nor the means which they employ to carry their powers into execution, so it has been held that the United States have no power under the Constitution to tax either the instrumentalities or the property of a State "[9] This same principle of tax exemption from state levies has been held to apply to bonds that have been issued by territories of the United States on the ground that they were "instrumentalities and agencies of the Federal government "[10]

These principles which have been pronounced by the court did not exempt the obligations of the United States from state in-

[7] 58 S Ct 980 (1938)

[8] 220 U. S 107 (1911), See also New York *ex rel* Rogers v Graves, 299 U S 401 (1937)

[9] Pollock v Farmers' Loan & Trust Co , 157 U S 429 (1895)

[10] Farmers and Mechanics Savings Banks of Minneapolis v. State of Minnesota, 232 U S 516 (1913)

heritance, gift, and estate taxes It was held by the United States Supreme Court that such tax, as on inheritances, was an imposition upon the right to dispose of property; that it was a tax exacted by the state for protection afforded during the lifetime of the decedent, and that such levy was in the nature of a service charge to the beneficiary [11]

The Second Liberty Bond Act, approved on September 24, 1917, is the present authority for the Secretary of the Treasury to borrow money through the sale of interest-bearing obligations of the United States government The Act provided also for the following tax exemptions on such issues.

United States Savings and Treasury Bonds and, with certain exceptions, Notes also, were made exempt both as to principal and interest, from all taxation, whether in effect then or imposed later, by the federal, state, or local governments, except (a) estate, inheritance or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits levies Under Section (b) of this Act, the interest on such bonds, the principal of which did not exceed in the aggregate $5,000 owned by any individual, partnership, association, or corporation, was exempt from taxes For the purpose of determining the amount of taxes and tax exemptions on the United States Savings Bonds, the difference in value between the price paid and received when sold was considered as interest

Treasury Certificates and Bills were made exempt, both as to principal and interest, from all taxation, except as to estate, inheritance, and gift taxes, which might be imposed, either then or later. The discount at which Treasury Bills were originally sold was considered as interest and therefore not subject to tax Any capital gain through the sale or disposition of these bills was tax exempt, and no loss arising out of any market transaction was deductible for any purposes of taxation.

The policy of exempting government securities from taxation did not prohibit any government from imposing any levy it might so desire upon its own property, credit obligations or instrumentalities, or granting that privilege to any other tax imposing unit In a few instances, as in the case of National Banks, the federal government gave express authority to states and local units to impose certain taxes upon them in order that competitive units to impose certain taxes so that competitive conditions with state financial institutions might be put on a common level

[11]Plummer v. Coler, 178 U S 115 (1900)

For a long time, however, it was believed that taxes should not be imposed by one government upon the other partly because such acts were believed to be unconstitutional When the income tax amendment was being debated in the Senate in 1910, Senator Borah said: "Until we revise the Constitution as a whole, take the instrument up and revise it and definitely announce that these separate and independent sovereignties are no longer to be so, no court will ever hold that you can interpret the taxing clause of the Constitution so as to destroy these sovereignties."

For many years the decisions of the Supreme Court held to this constitutional principle. But in the early part of 1934 the opinion was frequently pressed that conditions had so changed that the reasons actuating the Supreme Court in the past were no longer sound and applicable, and that it might be expected to alter its point of view. The rapid encroachment of the federal government upon the powers and rights of the states seemed to have seriously impaired the old doctrine of local sovereignty The contention that the federal government had power to tax the income from state bonds and state employees was based upon the Sixteenth Amendment to the United States Constitution, which reads as follows:

> ART XVI. The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration

It was claimed that, under this amendment, a federal tax may be imposed upon salaries and wages of state employees by a simple statute passed by Congress without further change in the Constitution

The Supreme Court first considered this qualification in respect to the taxability of compensation paid to government officers or employees in Helvering v Powers.[12] The court here held a trustee of the Boston Elevated Railway to be subject to federal taxation because the state operation of this railroad was not a usual governmental function. Chief Justice Hughes, speaking for a unanimous court, held the activity to be a business enterprise even though conducted for a public benefit It followed, since the activity itself was not immune from taxation, that there could be no claim for exemption of the salaries paid those employed by the railway

[12] 293 U. S 214 (1934)

In the New York Port Authority case,[13] Justice Stone, speaking for the majority of the court, contended that taxing the income of officers and employees of the port authority "neither precludes nor threatens unreasonably to obstruct any function essential to the continued existence of State Government." Allowance of immunity, he said, would "impose to an inadmissable extent a restriction upon the taxing power which the Constitution has granted to the Federal Government."

Justice Black, while agreeing with the majority, expressed the belief that the court should re-examine the "entire subject of inter-governmental tax immunity to be reviewed in the light of the effect of the Sixteenth Amendment authorizing Congress to levy a tax on incomes 'from whatever source derived' "

"Surely," Justice Black added, "the Constitution contains no imperative mandate that public employees — or others — drawing equal salaries (income) should be divided into taxpaying and non-taxpaying groups. Ordinarily such a result is discrimination. Uniform taxation upon those equally able to bear their fair share of the burden of Government is the objective of every just Government. The language of the Sixteenth Amendment empowering Congress to 'collect taxes from whatever source derived' — given its most obvious meaning — is broad enough to accomplish this purpose."

The Helvering v. Gerhardt decision is confined to salaries and wages of state employees and does not in terms reach the officers of states and municipalities. Based upon this judicial interpretation, the Congress proceeded to pass the Public Salary Tax Act of 1939 [14] Accordingly, since 1939, all salaries and wages of state officers and employees have become subject to federal income tax.

The arguments in favor of making the income of debt obligations of governments, and the salaries and wages of their employees subject to taxation, are quite plausible and receive general popular acclaim But there is also something to be said for exemption. It is claimed that a government would have to pay higher interest rates on all its borrowings if its bonds and notes were subject to tax; that what it received by tax levy would just about equal

[13] Helvering v Gerhardt, 304 U S 405 (1938). Also see Commissioners v. Shomberg's Estate, 144 Fed (2d) 998 (1944)

[14] United States Code, 1940, Generally, 5, paragraph 84a, also 26, paragraph 22, note, 26, paragraph 22 (a)

what it paid out in higher debt charges, and therefore, it would be like taking money out of one pocket and putting it in the other Then, again, there are those who claim that to tax these government securities would have an adverse effect upon their market values

The Public Debt Act of 1941, however, provided that all subsequent issues of obligations of the United States and its agencies and instrumentalities should be subject to federal taxes to the same extent as private obligations An exception was made, however, in the case of obligations which the United States Maritime Commission or the Federal Housing Administration had, prior to March 1, 1941, contracted to issue. It was provided that these obligations should, when issued, bear such tax exemptions as were stipulated in the law authorizing their issuance An exception was also made in the case of obligations of territories, possessions of the United States, the District of Columbia, and their political subdivisions, agencies, and instrumentalities

Monetary Inflation and Taxation. When a government has exhausted the reasonable possibilities of raising revenue by means of the ordinary forms of taxation and by the sale of its instruments of indebtedness, it then usually resorts to the issue of irredeemable paper money made legal tender. This last method of securing purchasing power is really a scheme for imposing an indirect tax upon its people through inflation of prices and reduction in the purchasing power of the dollar To explain how this system operates, it will be necessary to delve into a bit of classical monetary theory.

Let us assume that the country has lost all its gold and silver or has withdrawn both from circulation and reserve, and that it is on an irredeemable legal tender paper basis Commodity prices will rise permanently as additional quantities of this paper money are put into circulation, largely by the debtor. Since it is legal tender the creditor will be compelled to receive it in satisfaction of a debt. Conversely, the purchasing power of the money unit will fall. Because of this action of the government, economic values are being taken from the people in the same manner as if a tax were imposed As the quantity of paper money is increased, and the purchasing power of the unit falls, less and less real value remains in the hands of the people, until it totally disappears, unless the government calls a halt on the flotation of new issues

These circumstances above related have actually existed, and have been repeated so frequently in practice as to be irrefutable During the French Revolution in 1789, the *assignat* was issued by the French Government to help pay the expense of the war. Its purchasing power rapidly declined because of over-issue until its value became zero and it ceased to circulate. The continental currency issued during the American Revolution by the Continental Congress rapidly fell in value, and it was finally redeemed at one cent on the dollar in later years. The paper money that was issued by the Southern Confederacy during the Civil War became entirely worthless after the conflict The Greenbacks, or United States Notes, were authorized by the United States Congress in 1862, and immediately after they were paid by the federal government into the hands of the people for services and supplies they began to fall in value until their purchasing power at one time was about one-third of their face equivalency in gold. They did not return to parity of purchasing power with gold until the Redemption Act of Congress of January 1, 1879 The paper money issued by the Russian government during World War I became worthless, and at least two or three kinds of currencies in Germany disappeared completely from circulation between the years of 1914 and 1919 because their values became zero and the country temporarily went on a barter system of exchange In France and England the franc and pound sterling lost heavily in purchasing power during World Wars I and II largely because of inflation In all these countries during these periods, people saw their fortunes dwindle and in many cases completely disappear because of inflation, which in some cases amounted to confiscation by the act of government.

Soon after President Roosevelt came into office in 1933, general commodity prices reached their lowest level He was persuaded by his advisers that the cause of the economic depression lay in finance, and that it was only necessary to raise prices in order to effect a recovery To accomplish this purpose, he adopted the principle of the quantity theory of money by taking steps to increase the sum total of units of purchasing power in the country Bank credit was made easier, wages were increased and profits were distributed into the hands of the stockholders As was previously explained, by Act of Congress, Roosevelt reduced the weight of the gold dollar, and later using the Reconstruction Finance Corporation he began to buy gold and silver to increase

the stock of reserve of the precious metals to serve as further inflationary factors It was a clear case of premeditated inflation of prices by an overt act of the administration for the purpose of starting the wheels of commerce. This policy actually only slightly affected the general level of commodity prices, but to the extent to which it did, it may be regarded as a species of indirect taxation imposed upon the people As commodity prices rose, the people found that part of the purchasing power which they formerly had was being taken away from them, and that the longer they held onto their dollars the less valuable they became in terms of commodities for which they might wish to exchange them

During a period of inflation, not all prices advance at the same rate Some prices actually fall while others may advance very rapidly, which distributes the burden of the inflation "tax" over the people of the country very unevenly Where the effects of this inflation are general, the incidence of such "tax" will ultimately rest upon the consumer. Those whose incomes are fixed, such as the salaried and bond-holding classes, will be affected most during a rise in prices, because their ability to buy is actually reduced in such period

Summary. Modern governments are finding it necessary to resort more frequently to the use of public borrowing as a supplementary source of immediate income. In many respects, public and private credit are quite similar. In any case, credit may be defined as the privilege of an individual corporation or a government to consume goods and services at one time and to pay for them at a later time Credit is confidence Governments are said to have a credit rating much in the same manner as individuals and corporations, which is based upon character, capacity and capital. The chief distinction between public and private credit is the liability of the borrower. In general, a government cannot be held to a legal liability, except by its own consent. Even local units of government cannot be sued, except as provided by state statutes.

Public borrowings may be put to useful or wasteful purposes, thereby guaranteeing or impairing future payment. Public debt may be classified into short-time, intermediate, long-time, and perpetual issues. Enforced loans with no date of maturity and without interest may be made by a government by issuing irre-

deemable legal tender paper money. Each type of debt has its useful purpose, and should not be abused. The date of payment of government securities should be so distributed as to cause them to fall due at convenient intervals All governments have evolved very intricate and complicated fiscal machinery for handling their lending, refunding, and payment transactions. This fiscal machinery is usually activated through the central banking systems In the past, almost every important national banking system was created to aid the central government in its fiscal operations At present, the central bank usually issues all the paper money, handles all the government deposits and loans and may manage the public debt and the supply of gold and silver.

The tax exemption of federal, state, and local bonds, public enterprises, and the salaries and wages of public officials and employees has become a very complicated legal question and is not yet completely and clearly defined In general, however, the federal and state governments do not tax each other's credit instruments, or the salaries of their officers, except as provided by specific statutory provisions. However, since the holding of the Supreme Court in the Helvering v. Gerhardt case, under the Public Salary Tax Act, wages and salaries of officers and employees are taxable under the federal income tax law. State or federal enterprises, which are private in nature, although serving a public purpose, are subject to the general laws of taxation. The courts, in many cases, have also held that when either the federal or state governments engage in enterprises that are commercial in nature and not as an instrument of government the rule of tax immunity does not apply. In fact, Chief Justice Marshall in the McCulloch v Maryland case said:[15]

> This opinion does not deprive the states of any resources which they originally possessed It does not extend to a tax paid by the real property of the bank, in common with the other real property within the state, nor to a tax imposed on the interest which the citizens of Maryland may hold in this institution, in common with other property of the same description throughout the state But this is a tax on the operations of the bank, and is, consequently, a tax on the operation of an instrument employed by the government of the Union to carry its powers into execution Such a tax must be unconstitutional

[15] 4 Wheaton 316 (1819)

TEXT QUESTIONS

1. Define public credit, private credit.
2. In your own words, explain Professor Adams' discussion on the use of public credit and the safety of government securities.
3. What is the proper use of credit by a government?
4. In what ways may government deficits arise? How are they reduced or avoided?
5. Why are objections raised against governments accumulating reserves?
6. What is the maturity date of each of the following forms of debt:
   a) perpetual debt
   b) long-term debt
   c) short-term or temporary loans
   d) intermediate loans
7. What are the advantages and disadvantages of a perpetual debt?
8. Why do short-term loans arise?
9. Explain the use of the annuity in England. Is it used in the United States?
10. Discuss fully the character of the United States Treasury Bonds. Include an analysis of their market prices in the 1930's.
11. What is meant by a bond being sold at a discount? Illustrate.
12. What type of investor is interested in Treasury Bills? Why?
13. What is the aggregate amount of Treasury Notes, Certificates of Indebtedness, and Bills that can be outstanding at any one time?
14. Explain the use of the Treasury Tax Warrant. What danger is there in its use?
15. What is the principal purpose for the creation of banking systems? How do they render that aid?
16. Give illustrations of the use of the Exchequer Bond in England.
17. How do governments pay their debts? Explain each method.
18. Discuss fully the question of tax immunity of salaries and wages paid to government officers and employees.
19. What tax exemptions are granted under the Second Liberty Bond Act of 1917?
20. Discuss the decision in Helvering v. Powers.
21. Has the United States ever issued irredeemable paper money? If so, when?
22. What did President Roosevelt do to effect a recovery in 1933?

APPLICATION PROBLEMS

1 Mr Roosevelt, during the period of 1933 to 1939, contended that the federal budget was really in balance, even in the face of large deficit spending, large public borrowings, and rapid increase in the public debt. He was able to show that the government income was at least equal to the ordinary expenditures for the legislative, executive and judicial functions. He contended that the borrowings merely represented an *investment* and provided for *income-creating* expenditures for relief and rehabilitation. Prepare a critique on this statement, with special reference to *investment* and *income-creating*

2 Suppose the commercial rate of interest in your community is 5 per cent, and the interest rate on government bonds is 3 per cent What effect might this difference in rate of interest have on the market price of government bonds? Can you give a mathematical demonstration of the probable theoretical effect such difference in interest rates may have on the market value of government bonds? Does the fact that government bonds are below par necessarily cast any doubt upon its credit?

RESEARCH TOPICS

1 Visit the credit department of any bank or trust company and make a study of all the facts which are considered in determining the credit rating of an individual or corporation borrower How many of these same principles can you apply to the determination of the credit rating of a government? What are some of the distinctive characteristics of public credit not found in private credit?

2 Make an extensive study of the various processes which the federal government may put into operation in case its bonds were to drop below par Consider especially the open market operations of the federal reserve banks, and direct buying of its bonds by the United States Treasury. What was the purpose of the stabilization fund created with the gold act in 1933?

3 Make a study of the distribution of ownership of government bonds as to holders during the past several years Do they tend to concentrate in the hands of a few individuals and corporations, or are they widely held? What steps has the federal government been taking to encourage as wide ownership of its bonds as possible? What advantages do you see in wide distribution of ownership? Disadvantages in concentration?

4. Consider the short-time loans which the federal government has made during the last few years. Also include in your study similar loans made by your state and local unit of government Note especially such facts as interest rate, or discount rate, purposes for which loans were made, provisions and methods of repayment, were they later consolidated with and made part of the long-time debt?

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PART III

PUBLIC DEBT

CHAPTER 13

THE PUBLIC DEBT

The public debt of the federal government has experienced a long and checkered history In fact, the federal government inherited a large public debt, at the time of its organization in 1789, which had been created previously by the states during the Revolutionary War During these one hundred and sixty years of national existence, many aspects of public debt have been tried and developed which today serve as cumulated experience in debt management Public debt management may be of very great importance to the whole economy of the country. The history, development, economic and political repercussions of the public debt, debt management, and public debt analysis will be discussed in the next several chapters.

Speaking of public credit and war debts, George Washington, in his farewell address in September, 1796, said.

> As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible, avoiding occasions of expense by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it; avoiding likewise the accumulation of debt, not only by shunning occasion of expense, but by vigorous exertions in time of peace to discharge the debts which unavoidable wars may have occasioned, not ungenerously throwing upon posterity the burdens which we ourselves ought to bear.

A government may obtain income from four sources, namely, by taxation, by confiscation, from public industries and by public borrowing Of these four sources of income, public borrowing is extensively used by every grade of government, especially during an emergency During World War I, the federal government secured its income in the proportions of 72 per cent from borrowing and 28 per cent from taxation The proportions in World War II were about 50-50 from borrowing and from taxation, respectively. During ordinary times, the federal budget usually has a substantial surplus.

These four sources of income however do not exhaust the historical categories for it will be recalled that in earlier times

pillage, piracy, booty of war, tribute, and escheat, among others, provided at least occasional resources for successful rulers. Fortunately, most of these violent forms of acquisition by governments have passed away, although indemnities in the case of war are sometimes not much more than refined methods of tribute. Borrowing, as will be explained, takes many forms, some of which are disguised in such a manner as to conceal their real nature.

Confiscation. In most instances, the act of confiscation by government is incidental and occasional, but confiscated property may continue to be a source of income for the maintenance of government. During World War II the Facist and Nazi dictatorships liberally used confiscation as a means of prosecuting the war.

It is sometimes difficult to distinguish this form of income from taxation There is often a rather broad twilight zone of confused destruction between the two. Certain forms of taxation are, at times, so high as to amount to virtual confiscation, although they may not go by that name. Payment of the public debt in a paper money that is undergoing rapid depreciation may be either a disguised form of taxation or of confiscation or both. Persons who hold to the socialistic or communistic faith sometimes contend that private property—particularly in land—came into existence by a kind of theft, and that it would be no violation of the moral code for the government to take it back again by the same method; a doctrine that two wrongs make a right The taking of property without compensation has been observed in the autocratic countries in Europe in recent years, the capital levy as it has been imposed on several occasions in Italy, while disguised as subscription for government bonds, is in substance confiscation.

Borrowing. The chief concern in this chapter is with public borrowing and debt history As has been explained in earlier chapters, in the United States there are three grades of government each of which has authority to contract debts With local governments, the power is sometimes limited by state statutes and by constitutional provisions, but the United States Government does not labor under this disability. How much, or how little, shall be added to the public debt of the United States is entirely in the hands of the Congress This body from time to time not only sets the limit which the President and the Secretary of the Treasury may pledge the credit of the United States but also all the other conditions relative to its issues.

It is worth while to observe that because there are three debt creating authorities one is apt to get an erroneous view, first, of the total obligation which must eventually be met by the taxpayer, and, second, of the debt paying power of each of these subdivisions. In any city, New York for example, most citizens do not know the amount of the total funded debt of their city or their state, although they may have a rather good idea of the national debt. Yet all three are a charge against the future productivity of the citizens in the locality.

Until recent years, the largest funded debts were those of the local governments. This is a natural condition. The local government is close to the people. It must meet many requirements which are not obligations of state and federal governments. There are streets to be maintained, sanitation to be provided, lighting systems to be installed and kept in order, sewers to be built, schools to be supported, health needs to receive attention and many other local services to be supplied. All these matters and others, are daily routine in city and county management, and the expense frequently requires large income in addition to that provided by the annual tax bill. Hence, borrowing becomes an important ancillary income to these local units

In 1932, the total fixed or funded debts of the local divisions were about five times those of the states, not including that of the federal government. As a rule, the states have kept their borrowings within very modest limits. In fact, in 1932, the funded debt of Nebraska and Arizona was practically negligible, and that of nine other states was less than $5,000,000.[1] Until World War I the federal debt was also small, namely, $967,900,000 of interest bearing obligations early in 1914

The Beginning of the Federal Debt. The federal government did not start in 1789 with a clean slate. Three types of claims of greater or less validity were presented at that time for consideration They were, first, foreign debts to France, Spain and Holland covering loans or subsidies during, or immediately following, the American Revolution; second, the borrowings in various forms of the national government largely for war purposes, third, debts contracted by the states, again largely for war purposes, and considered by the people of the time as a contribution of these

[1]Delaware, Idaho, Indiana, Kentucky, Nevada, Oklahoma, Texas, Wisconsin, and Wyoming.

divisions for a national purpose The task of providing a method of settlement of these claims, and of eventually funding the debt, fell to Alexander Hamilton, the first Secretary of the Treasury His plan of public debt management with the approval of President Washington was submitted to Congress in 1790. On the whole, his ideas were accepted, but not without controversy

In support of his plan of public debt management Hamilton laid great stress on the need for establishing a firm policy of government credit. He argued that "exigencies are to be expected to occur . . . in which there will be a necessity for borrowing"; loans in times of public danger are indispensable; the ability to borrow on "good terms" is essential to the credit of the nation, extravagant premiums must be paid on questionable loans, the cost of credit to a nation of unsound credit will be unduly high; "nor does the evil end here, the same disadvantage must be sustained upon whatever is to be bought on terms of future payment From this constant necessity of borrowing and buying dear, it is easy to conceive how immensely the expenses of a nation, in a course of time, will be augmented by an unsound state of the public credit "[2] Thus, the key to his management plan was to create such a firm credit structure that the government could borrow in times of need on terms which would greatly reduce its future costs.

Hamilton reinforced his arguments with the statement that· "This reflection derives additional strength from the nature of the debt of the United States It was the price of liberty The faith of America has been repeatedly pledged for it, and with solemnities that give peculiar force to the obligation There is, indeed, reason to regret that it has not hitherto been kept; that the necessities of war, conspiring with inexperience, in the subjects of finance, produced direct infractions, and that the subsequent period has been a continued scene of negative violation, or non-compliance."[3]

Hamilton submitted detailed estimates of the three types of indebtedness named above In no case was it a simple matter to arrive at a sum that Congress might think just and reasonable The case was clearest with the foreign debts upon which the terms had been clearly stated But with all the leading nations there were arrearages of interest and in some cases of principal

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[2]American State Papers ed Walter Lowrie and Matthew St Clair Clarke (Washington· Gales and Seaton, 1832), *Finance*, I, 15
[3]Ibid

The situation was far more complicated with the national obligations. These had been contracted in different forms and at different times and at varying rates of interest At that time, they were in varying degrees of depreciation, and many of them had passed from the hands of the original owners, depreciating as they moved along. The result was that intermediate holders had already lost something on the transactions Some of these obligations had passed from hand to hand in the form of money, again with current losses because of depreciation Moreover, many persons had acquired these bills for speculative purposes, and with the ultimate hope of unearned increment gain.

Thus the following questions If Congress agreed that payment should be made, what basis of value should be adopted for the computation? Should the obligation include interest, and, if so, at what amount and from what date? Was any consideration to be given to intermediate holders?

Under the title of "Abstract of the Liquidated and Loan Office Debt of the United States, on the 3rd of March, 1789", Hamilton listed the types of obligations outstanding. These included "Registered debt," "Certificates issued by Commissioner of Army Accounts," "Certificates issued by the Commissioners of the five departments," "Certificates issued by the late State Commissioners," "Loan Office certificates, old emissions, reduced to special value, agreeably to the scale made by Congress, by taking the medium of the loans made in each month," and others [4]

Hamilton also computed the "public debt of the States" Some had responded to his inquiry for information, others had not Thus it became necessary to submit the total as an estimate In this connection, he remarked that "From the above statement and estimates, the amount of principal and interest, (exclusive of Delaware, North Carolina, Georgia, and Rhode Island) appears to be about twenty-one millions and a half, but as the debts of the four last States are not included in the above sum, and it is possible that a greater arrearage of interest may be due on the State debts than is at present ascertained, the aggregate of the principal and interest may be computed at about twenty-five millions of dollars."[5]

With the presentation of these data, the problem of rejection or assumption of these debts was before Congress There was little or

[4]Ibid., p 27
[5]Ibid , p 29

no opposition in or out of Congress to the assumption of the foreign debt. But many doubts arose as to the other types of debt obligations In view of the troubles through which the country had been passing during the past six years, it was remarkable that Hamilton should have been able to secure the enactment of his program. The years from 1783 to 1789 have been characterized by the historian, John Fiske, as "The Critical Period in American History." It had been a period of political uncertainty and of economic distress In spite of these conditions, the members of Congress stood by the plan as proposed by Hamilton. Some questioned the advisability of paying present holders in full, others were influenced by the knowledge that speculation had been rife in these obligations; still others wanted a compromise plan. But in the end the Secretary's ideas prevailed The outcome was that all holders of certificates were to receive the face value of the government obligation with interest. However, an exception was made with the continental currency or bills of credit which were to be cancelled on the basis of one cent on the dollar in specie.

The assumption of the state debts also stirred controversies Here the issue seems to have been whether the new federal government should assume the debts contracted by the states of the old form of government which had passed out of existence with the ratification of the Constitution

Hamilton's reply was in the affirmative. His idea was that it would be repugnant "to an express provision of the Constitution of the United States" to act otherwise. He added that "this provision is, that 'all debts contracted, and engagements made before the adoption of that Constitution, shall be as valid against the United States under it, as under the Confederation'." He contended that this amounted to a "constitutional ratification of contracts respecting the debt, in the state in which they existed under the Confederation "[6]

He urged further that if the states held to their faith as debtors it would be necessary for them to pay, that provision must be made in some way or another for the entire debt, that no greater revenue would be required whether the states paid separately or consolidated their debts in the form of an obligation of the United States; and that such an arrangement would provide for a more orderly settlement than if left to the states.

[6] *Ibid*, p 17.

As an outcome of various arrangements, the new federal government began with a foreign debt of $13,000,000; a domestic debt of $42,000,000, which included the issues as listed by Hamilton, and the debts assumed from the states of $21,500,000—a total of $76,500,000.

Throughout the next several years, the government was forced to borrow from the First United States Bank. From 1792 to 1798, the aggregate of the loans was about $10,300,000. Some $5,000,000 was borrowed to cover deficiencies in appropriations for military affairs Smaller loans added something to the total. Meanwhile, payments of interest and toward the liquidation of the principal continued The total debt in 1791 was about $75,400,000, of which only $1,500,000 had been funded. In 1800, the total federal debt stood at about $82,900,000, of which $57,000,000 was funded, and about $12,000,000 of foreign debt.

In the earliest years of the federal government, the service on the public debt was the largest single charge that had to be met. In the estimates for the year 1789, the sum estimated to cover such payments was upwards of $6,600,000. The expenses for running the federal government, including arrearages of former years, amounted to only $630,000 [7]

Funding of the Federal Debt. The funding act of August 4, 1790, the first in the history of the new country, is one of the landmarks in its financial history It may seem unduly complicated, but the Congress was dealing with a very difficult and complicated situation. It was necessary to estimate the interest rates, current and future, and to guess how the funding arrangements, if successful, would affect the credit of the United States Government, and how these factors would affect the rates at which the country could subsequently borrow Moreover, the financiers of the time had no idea as to the rapidity with which the debt could be liquidated, a matter which might have affected their decision as to the proffered terms of the loans. Then, further, it was by no means certain that all persons would accept the terms of the loans such as the rate of interest and maturity of the issues—a condition which actually developed—and provision had to be made for the adjustment of creditors' claims

Three types of debts called for attention· those due abroad, the national debt made up of various claims against the federal

[7] *Ibid.*, p. 12.

government; and that portion of the debt which had been assumed from the states

With respect to the first, the plan was relatively simple The funding act by Congress authorized the President of the United States to borrow not in excess of $12,000,000 to care for the arrears and installments on this debt, or to pay the whole amount, if this could be done to the advantage of the federal government. But he was prohibited from entering into any contract which would prevent the United States from reimbursing any of the borrowed sums within fifteen years after they had been lent.

With regard to the issue of the domestic debt, books were to be opened at the Treasury Department, and by commissioners appointed in each state The officials were authorized to accept subscriptions and to make payment in certificates, using specie value as the basis of the transaction These certificates indicated that the United States Government owed the subscriber the amount as expressed The subscriber received two certificates, one equal to two-thirds of the sum, bearing interest at 6 per cent, the other for one-third, which also was to pay interest at 6 per cent, but not until after the year 1800 Interest was to be paid quarterly Both certificates were subject to redemption by payment not exceeding in one year $8 00 on each $100 of the sum mentioned in the certificate.[8]

A somewhat different arrangement was provided for the assumed debts of the states. For the purpose of payment these debts were split into three parts On the first, equal to four-ninths of the sum indicated on the certificate, the subscriber was to receive 6 per cent interest, on the second, equal to two-ninths, he was also to receive 6 per cent payable after 1800, and on the third, equal to three-ninths, the interest was 3 per cent These provisions referred to "person, persons, or bodies politic" Commissioners were to be appointed to determine how much the claimants were entitled to receive [9]

The Sinking Fund. In order more adequately to protect the public credit, and possibly to guard against the evils of speculation in United States Government securities, provision was made for the establishment of a federal sinking fund This device is usually

[8] *United States Statutes at Large* Boston Little, Brown & Co , 1861, I, 139 ff

[9] *Ibid.*

operated by setting aside in a separate fund—usually under the control of a body of commissioners—income derived from specified sources, in some cases, these incomes may be the result of excess of appropriations authorized by Congress over the actual expenditures.

With respect to the United States, the idea of a sinking fund antedates the formation of the federal constitution During the troublous times of the Confederation, Alexander Hamilton made an unsuccessful attempt to set up such a fund to liquidate the national debt. The first national sinking fund was established by Act of Congress on August 4, 1790 Among other things, it provided that the proceeds of the sale of public land were pledged to the redemption of the federal debt. Provisions in the Act of May 8, 1792, only elaborated further on the former act. Interest on "so much of the debt as has been or shall be purchased or redeemed, or shall be paid into the Treasury (of the United States) in satisfaction of any debt or demand," was to be transferred to this fund, also the surplus of any sums which had been appropriated for the payment of interest on the public debt The items which contributed to the fund were changed from time to time.

Five commissioners were provided to manage the sinking fund, namely, the President of the Senate, the Chief Justice, the Secretary of State, the Secretary of the Treasury, and the Attorney General

The Public Debt, 1800 to 1835. Over the years, the public debt of the United States Government has been created largely to cover the expense of war and public improvements The authorities in charge of the financial arrangements have been true to the theory of debt management with respect to the fact that borrowing should be employed only in cases of emergency, or to cover occasional deficits. War may be considered an emergency

Thus federal debt management has been operated somewhat after this sequence debts accumulated for war purposes, then a series of years in which the debt was gradually reduced or even totally paid, then another war with more debts and subsequent reductions, and so on All the while, this process has been disturbed or altered here and there by some peace-time emergency borrowing which required more funds than could be raised immediately by taxation One of the first of these was the Louisiana Purchase.

Prior to the Louisiana Purchase, the lower part of the Mississippi River was under the jurisdiction of France. This power had thrown all manner of handicaps in the way of free navigation of the lower sections of the river Moreover, lack of a place of deposit for goods destined for transit beyond New Orleans nullified some of the advantages of navigation of the upper portion of the stream. The transfer of Louisiana from Spain to France by the treaty of Ildefonso (1800) brought on a real crisis in the history of the United States. The nation was greatly disturbed. After considerable negotiation, Napoleon sold the whole of Louisiana to the United States, instead, as had been the original expectation, of only a small strip of coast extending eastward from the Mississippi River and including New Orleans The purchase price was $15,000,000, which included three and three-quarter millions to pay claims of Americans for spoilations committed by France since 1800.

In spite of the fact that at this time, the Treasury was in possession of a surplus of revenue, this transaction required new financing. Following the treaty of April 30, 1803, by which the purchase was effected, Congress enacted a law on October 31, 1803, authorizing the President of the United States to take possession of the territory, and on November 10 of the same year provided the funds for the purchase. The Secretary of the Treasury was authorized to issue certificates of stock in favor of France for $11,250,000 bearing interest at 6 per cent; but, if he thought it advisable, the Secretary was empowered to pay in four equal installments, and to shorten the period fixed for reimbursement, as provided in the treaty

Under the same act, Congress provided for another change in sinking fund provisions An Act of April 9, 1802, had provided for enlarged contributions to this fund including not only the net proceeds of the sales of public lands and certain other surplus funds, as heretofore, but all surpluses of revenue which remained at the end of any calendar year in excess of appropriations charged against such revenues [10] This new act provided that in addition to the $7,300,000 periodically appropriated a further amount of $700,000 was to be paid from duties on merchandise and tonnage, making the whole annual sum vested in the hands of the sinking fund commissioners $8,000,000. The fund was to con-

[10] American State Papers, *Finance*, I, 746

tinue until the whole debt of the United States Government had been extinguished [11]

The war against the Barbary pirates also required financing. But the sum was not expected to be large, and Congress was of the opinion that the expenses could be paid from current revenue The plan provided by the Act of March 26, 1804, was as follows. an additional duty of 2 5 per cent was laid on all imported articles that paid ad valorem duties, and 10 per cent additional duty on all goods imported in non-American ships This arrangement was to terminate three months after the conclusion of a treaty with the regency of Tripoli. If added funds were necessary, the President was authorized to borrow $1,000,000 from the Bank of the United States,[12] at an interest rate not exceeding 6 per cent. A unique feature of this operation was the setting aside of these duties in a special fund to be known as the "Mediterranean Fund" The proceeds were to be used solely for the prosecution of the war against pirates.

Because receipts were in excess of expenditures (except in 1809) during the years from 1801 to 1811, inclusive, and because there were no other extraordinary demands on the Treasury, the country was able to keep clear of other long time obligations. The total receipts for the twelve years just mentioned amounted to $144, 976,000, and the total expenditures were $96,768,000. This favorable condition made possible a rather large reduction of the public debt As a matter of fact, the debt which stood at $83,000,000 in 1801, became $45,200,000 in 1812 During these years, receipts from customs constituted more than 90 per cent of Treasury income.

The war of 1812 put the country in need of the first great piece of public financing since the funding of the original debts. Although war with England had been in prospect for several years, Congress had made no preparations for the emergency. Fortunately the national debt had been greatly reduced, the credit of the country was good, partly due to the plans of Hamilton, and the ultimate prospects for the expansion of wealth and industry were almost unlimited. In these things there was strength

The statesmen of the time leaned to the idea that the proper method of financing a war was largely through borrowing Conditions of the time bore them out, at least partially, in this assump-

[11] *United States Statutes at Large*, II, 246
[12] *Ibid.*, II, 291

tion. War itself was a burden and taxation would have been an added weight In war time, shifts of capital would occur from groups of industries to other groups, for a time throwing old industrial relations out of balance. Vanishing industries would not supply income, and the newer ones would require time to develop to the point where they could supply financial resources to the government Both commercial and industrial incomes were destined to decline for a time How soon they would be able to make contributions for government support was a matter of speculation. Hitherto, the country had supplied itself mainly from customs duties and excises Import duties would be seriously affected in time of war. They might be raised, but no adequate supply of government income could be expected from that source These were some of the ideas current at the time.

In his Report on the state of the Finances, communicated to the Senate on November 7, 1807, Albert Gallatin, the Secretary of the Treasury, expressed himself at some length on methods of financing a war An interesting feature of his report was his attitude on a war chest as applicable to the United States. He said "A previous accumulation of treasure, in time of peace, might to a great degree defray the extraordinary expenses of war, and diminish the necessity of either loans or additional taxes. It would provide, during periods of prosperity, for those adverse events to which every nation is exposed, instead of increasing the burdens of the people at a time when they are least able to bear them, or of impairing, by anticipations, the resources of ensuing generations" To the argument that this policy would lock up funds where they could not be used for industrial purposes, Gallatin replied "The public moneys of the United States not being locked up and withdrawn from general circulation, but, on the contrary, deposited in banks, and continuing to form a part of the circulating medium, the most formidable objection to that system, which has, nevertheless, been, at times, adopted with considerable success in other countries, is thereby altogether removed"[13]

If Gallatin's reasoning does not seem orthodox by the present methods of approach to war finances, he may be forgiven partly because he believed that the isolated position of the United States

[13]American State Papers. *Finance*, II, 248

rendered it safe from serious invasion, and partly because he thought that naval expenses could be kept to relatively small figures. He had no conception of the great cost of a war machine today.

With respect to other measures, he was of the opinion that a maritime war would keenly affect the resources of individuals; commercial profits would be curtailed, the loss of foreign markets for agricultural products would be serious "The reduced price of articles exported from the United States will operate more heavily than any contemplated tax . It seems to follow that, as far as relates to America, the losses and privations caused by the war should not be aggravated by taxes beyond what is strictly necessary."[14] He asserted also that the credit of the United States Government, both at home and abroad, was unimpaired, and that a reasonable amount of borrowing could be done on favorable terms In addition, due to a prospective decline in business, banks could lend to the federal government a considerable portion of their capital stock.

He then gave in some detail taxes which might be imposed; the duty on salt and the Mediterranean duties might be revived; duties on imports could be greatly increased. He saw objections to direct taxes "arising from unavoidable inequality, produced by the uniformity rule of the Constitution " He thought that in spite of the relative differences in wealth the tax "must be raised in proportion to their relative population "[15] He expressed similar views in his report of December 10, 1808 [16]

His forecast with respect to foreign commerce turned out to be true. Imports which amounted to $77,000,000 in 1812, dropped to $22,000,000 in 1813 and to $12,900,000 in 1814 In 1812 exports amounted to $38,500,000, they were $6,900,000 in 1814 The decline of this trade weighed heavily on the commercial and agricultural classes It probably backed up on domestic industries, reducing the capacities of the people to stand a heavy load of taxation.

If for no other reason, these conditions suggested borrowing Even before the declaration of war in 1812 against England the surplus of former years had begun to turn to deficit A Loan Act of March 2, 1811, authorized the President of the United States

[14] *Ibid*, p 248
[15] *Ibid*, pp 248 and 249
[16] *Ibid*, p 309

to borrow not in excess of $5,000,000 at a rate not to exceed 6 per cent The funds were to be used for "any public expense which may be authorized by law "[17] The certificates of stock were to be sold at auction, but none of the stock was to be sold at less than par The sinking fund was again brought to the fore. The act provided that as much as needed of the $8,000,000 fund should be pledged for the payment of principal and interest on the stock This act was the beginning of a series of measures which included further loans, the issue of treasury notes, the advance in practically all the duties, and finally, the use of direct taxes on real and personal property.

The following year, March 14, 1812, Congress authorized another loan, this time amounting to $11,000,000 Again the rate was not to exceed 6 per cent, and the stock was not to be sold below par By that time, Congress began to realize that a prompt liquidation of loans was out of the question. Thus it was provided that the sum could be paid at any time after twelve years, dating from January 1, 1813.[18]

Six loans subsequent to the one of March 2, 1811, aggregated $62,500,000. Meanwhile, the credit of the country had begun to undergo strain. In the loan of February 8, 1813, it became necessary to abandon the policy of accepting bids at no less than par The Secretary of the Treasury was under pressure to offer still better terms in the $25,000,000 loan of February 24, 1815. The proposed issue was far too large for the market to absorb at a rate which would satisfy the Secretary. In the words of F W. Campbell, who had succeeded Gallatin, "A loan of ten million dollars was considered as more likely to prove successful, than if an attempt was made to obtain the whole amount of $25,000,000 at once " While the offers amounted to about $11,900,000, some $2,600,000 was at prices less than 88 per cent of par, and $1,183,000 at less than 85 per cent. The Secretary was forced to compromise. Bids which were accepted at eighty-eight contained the provision "that if terms more favorable to the lenders should be allowed for any part of the $25,000,000 authorized . . . the same terms should be extended to those holding stock of the ten million loan "[19] For the offer of the second installment of the loan on August 22, 1814, for $6,000,000 some bids were at less than 80

[17] *United States Statutes at Large*, II, 656
[18] American State Papers, *Finance*, II, 565
[19] *Ibid*, p 841

per cent These are only a few of the difficulties that were encountered with the loans toward the end of the war.

Possibly one reason for the poor showing of the offerings was the unwillingness of investors in the New England section to participate. Jefferson's policy had been unpopular in that section. The embargo, the non-intercourse act, and then the war itself, stirred the hostility of that section. Foreign trading, one of the main lines of activity, had been seriously curtailed by the policies of the administration. Professor Davis R. Dewey stated that "New England carried its opposition to the extreme point; of the $41,010,000 borrowed by the government exclusive of treasury notes and temporary loans up to the end of 1814, it contributed less than $3,000,000. The government also suffered in not being able to engage the co-operation of any strong banking institution, and the loss of the United States Bank was now distinctly felt."[20]

The great need for funds, coupled with the inability to borrow at favorable rates forced upon the federal government another method of obtaining income—the issue of treasury notes. In the face of considerable congressional opposition, the first issue was authorized by the Act of June 30, 1812 The shade of inflation of the Revolutionary War still haunted the members. No one who had lived through the experiences of the Continental Currency or Bills of Credit period could soon forget the unfortunate consequences that attended their issue Thus it was feared that the use of treasury notes, once adopted, would run to the bitter end of depreciation

The issue was not to exceed $5,000,000, and was to be redeemed in one year. Notes bore interest from the day of issue at 5⅖ per cent, payable to the owner of the note. This paper was to be used for the purchase of supplies and for the discharge of the debts of the United States Government and was to be paid to such creditors "as may choose to accept such notes." Payment was to be made at par. They were to be receivable "everywhere" in payment of all duties and taxes laid by the United States—a device which helped to remove them from circulation. The commissioners in charge of the sinking fund were authorized to purchase these notes "in the same manner as of other evidences of public debt."[21]

[20] Dewey, Davis R. *Financial History of the United States*, 11th ed New York Longmans, Green and Co , 1931, p 133

[21] *United States Statutes at Large*, II, 767

This was only a beginning. Before the pressing needs of the Treasury had been satisfied five other issues were authorized, the last bearing the date of February 24, 1815 All in all, some $36,600,000 were issued. Since the notes of later issues replaced those of earlier date, the total of all issues was never outstanding at any one time The amount still current on January 1, 1817, was $3,450,000. The denominations of these notes varied from issue to issue Those of the last were as low as $3.00. The conditions of issue tended to promote their early retirement For example, the Acts of December 26, 1814, and of February 24, 1815, made them fundable The gradual improvement of public credit after the war encouraged conversion Thus notes still outstanding were rapidly funded into interest bearing government stock, as government securities at that time were called.

The third source of income was taxation In spite of early opposition to this method of raising revenue, Congress was forced into it As early as July 22, 1813, Congress provided a system of direct taxes on real and personal property and of other internal duties The act provided an elaborate districting of the United States, with assessors and collectors to handle the tax machinery Taxes were to be laid on "the value of land, lots of ground with their improvements, dwelling houses, and slaves,"[22] and other items Internal revenue duties were further increased by the Acts of December 15, 1814, and January 15, 1818 Levies on inheritances and incomes were proposed at this time but no law to that effect was ever actually enacted.

Both the war and the method of handling public finances proved to be an expensive undertaking for the country. Whether a better system of debt management was possible under existing political and economic conditions is a debatable question But there is no doubt about the cost. With respect to later loans, the nominal rate was not the real rate A large volume of government stock was sold at a discount In this connection, Professor Dewey stated that, "At the close of the war, when the public credit rose, the last war loan, authorized on March 3, 1815, was more successfully negotiated at an average discount of little less than 5 per cent. The total loss to the federal government in disposing of its loans during the war period, 1812-1816, was enormous in 1830 the Committee of Ways and Means of the House of Representa-

[22] *Ibid.*, III, p. 22

tives estimated that for loans of over $80,000,000 the Treasury received but $34,000,000 as measured in specie "[23]

Between 1812 and 1816, the national debt nearly trebled, mainly as a result of war operations and internal improvements, chiefly road and canal building. In the latter year, the debt stood at $127,300,000, the highest in the history of the country up to that time. It could hardly be claimed that the debt was anything of a burden Partly as a result of the war itself, a new set of economic forces had been put into operation which eventually stimulated industrial expansion, enhanced the wealth of all classes of people, and laid the basis for a firmer prosperity than the country had experienced previously For one thing, the attention of industrial leaders was directed more to manufacturing than ever before; foreign trading lost something of its old prestige, waves of immigrants spread over the country, internal development became the order of the day, first in the form of roads, then canals, and later railroads, and finally the founding of new manufactures to serve the needs of the growing population

These were among the factors which not only increased the wealth of the people—and incidentally augmented their demands upon government—but at the same time, afforded an ever increasing income which could be used for the support of new government spending

Some new financial problems lay immediately ahead Since the termination of the First United States Bank in 1811, the federal government had been handicapped in handling its fiscal affairs A Second United States Bank was chartered in 1816 for another period of twenty years. From the point of view of the federal government, this second institution could render a great many services It could receive and transfer revenues, act as a depository for the funds of the federal government, aid the Treasury in handling the debt, and, in general, act as fiscal agent for the federal government.

A Nation Without Debts. If the flood of goods which moved into the country from Europe at the close of the war caused hardships for the new manufacturers, it did provide an increase in income for the federal government, because of greatly increased import duties Imports jumped from $12,900,000 in 1814 to

[23]Dewey, *op cit*, p 134

$113,000,000 in 1815, and to $147,000,000 in 1816. Exports rose from $6,900,000 in 1814 to $81,900,000 in 1816.

Whereas, year after year, the export trade was well maintained, import commerce could not keep the pace set by the exceptional years named above One cause for the large inflow was the release of pent-up English goods which were again free to seek markets in this country. But the protective tariffs of 1816, and later of 1824 and 1828, put this trade under some handicaps by discouraging imports.

In 1816, the Treasury was in possession of a surplus in excess of $16,000,000, and of over $13,000,000 the following year. Much of these sums was applied either directly or indirectly to the reduction of the national debt. By an Act of March 3, 1817, Congress directed that $10,000,000 from the proceeds of the sale of public lands, and from customs, tonnage, and internal revenue duties should be appropriated annually to the sinking fund. In 1817, an additional $9,000,000 was appropriated to that fund for that year.

In the reorganization of the finances after the war, the sinking fund came in for its share of reform. Thus it was said that in the redemption plan of 1817 the sinking fund reached almost the extreme of simplicity. It is true that the payment on behalf of the public debt still went into a separate account, and was payable in theory to a special board But the cunning and complicated apparatus of Hamilton's wise debt management plans and the English financiers had been forgotten. There was no fixed payment on account of the principal of the debt, no involved appropriation, no sinking fund composed of specific items of revenue, no contract with the creditors, no automatic purchasing machinery, no borrowing on behalf of the fund, no hoarding of paid-off debt, and no payment of interest on outstanding government securities.

In its large appropriations of 1816 and 1817 toward the payment of the public debt, it turned out that Congress was a little too optimistic about the future A brief period of hard times was ahead. The crisis of 1819, and the aftermath, hung over the country for several years. Surpluses turned into deficits. Adding to the difficulties was the fact that several million dollars of public debt fell due in this period. Two small loans were necessary, one authorized on May 15, 1820, and another March 3, 1821. With the return of better times after 1822, surpluses again appeared, and the debt began its long trek downward to final extinction in

1836-37 The debt dropped somewhat below the $100,000,000 mark in 1819, it was $48,500,000 in 1830, about $7,000,000 in 1833, and was paid off entirely in January, 1835

In this there was realized one of the ideals contemplated by Thomas Jefferson In his message to Congress on December 15, 1802, he envisioned the time when the United States Government would be free from debt He said, "When effects so salutary result from the plan you have already sanctioned; when merely by avoiding false objects of expense we are able, without a direct tax, without internal taxes, and without borrowing to make large and effectual payments towards the discharge of our public debt and the emancipation of our prosperity from that mortal canker, it is an encouragement, fellow citizens, of the highest order to proceed as we have begun in substituting economy for taxation, and in pursuing what is useful for a nation placed as we are, rather than what is practiced by others under different circumstances "[24]

Jefferson again referred to this subject in his annual message of December 2, 1806. Thus he inquired: "To what other objects shall these surplusses be appropriated?" His opinion was that "Their patriotism would certainly prefer its (import duty's) continuance and application to the great purposes of public improvement as it may be thought proper to add to the constitutional enumeration of Federal Powers "[25] He spoke with a great deal of enthusiasm of the founding of "a national establishment for education" as a proper use for some of the surplus [26]

In 1835, however, Congress was ready with a different plan It is outside the realm of our present discussion to present the controversies which arose over proposed methods of distributing the national surplus among the states Suffice it to say that a plan was worked out whereby the surplus in the Treasury on January 1, 1837, should be "deposited" with the several states in proportion to their representation in the House and Senate The word "deposit" was a fiction to get around constitutional objections to distribution of these surplus funds among the states

But in their ideas of distribution Congress had again, as on previous occasions, failed to take the fortunes of the future into account With 1837 came a business crisis with its inevitable train

[24] Richardson, James D *A Compilation of the Messages and Papers of the Presidents* (Washington, D C., U S Government Printing Office, pub by authority of Congress), 1898, I, 345

[25] *Ibid.*, p 408

[26] *Ibid.*, p 409

of shrinkages of all kinds of incomes, those of the government included. Deficits began to appear in 1837, and with the exception of 1839, became the usual round of Treasury history during the next six years or more

To complicate matters, in anticipation of continued good times, Congress had appropriated funds for various enterprises, and these commitments could not be rescinded. Borrowing was the only way out. The first expedient was the issue of treasury notes Some eight different acts provided for that kind of loan, with an aggregate sum of about $47,000,000. The notes were of denominations as low as $50 They bore interest and were receivable in payment of all debts to the United States. Congress evidently thought the emergency would be of short duration for the notes were payable in one year. In 1841, a new policy was adopted. Two subsequent loans (April 15, 1842, and March 3, 1843) were designed to carry out the new policy The purpose then became that of funding the outstanding notes and raising new funds by borrowing on longer terms than one year This shift made a change in the records of the Treasury. The outstanding obligations then appeared as debts which rose to $15,000,000 in 1842 and to $26,800,000 in 1843

That amount changed little over the next four or five years Thereafter, the financing of the Mexican War of 1848 caused an increase in the federal debt The new financing took the form of treasury notes and government stock. "All of these loans were placed at par and a portion yielded a premium aggregating over a half million dollars This success may well be compared with the financing of the War of 1812, when loans in stock were sold with difficulty and at a discount and treasury notes were depreciated. The ease of the Treasury was due not so much to a wiser intelligence as to the great increase in wealth of the country and to the advance in government credit "[27]

Fiscal Conditions of 1860. The beginning of the Civil War in 1861 found the North in a much better condition than the South to withstand the strain of a conflict of considerable magnitude As between the North and South at that time, the former had most of the population, manufacturing, railroads, natural resources and other forms of wealth In his report of July 4, 1861, Secretary of the Treasury, Salmon P Chase, estimated that "the

[27]Dewey, *op. cit*, p 255

proportion of the property of both descriptions (real and personal) in the United States, excluding those at present under insurrection, is $10,900,758,000, of which sum $7,630,530,605 represents, according to the best estimates, the value of the real, and $3,270,227,404 the value of the personal property "[28] About 90 per cent of the real property and 70 per cent of the personal, according to value, was in the northern states. This latter section was the location of most of the manufacturing industries, and upon its ports was concentrated by far the larger portion of the incoming and outgoing commerce The diversification of sources of income and of enterprise in the North, as compared to the South, further added to the contrast in productive strength

The estimates of Secretary Chase, with respect to governmental needs, and his ideas as to "ways and means" of meeting those needs, were contained in his report of July 4, 1861. The whole amount needed for the fiscal year of 1862 was estimated as follows:[29]

To satisfy appropriations for former years yet unpaid	$ 20,121,880 70
To satisfy appropriations already made for the fiscal year, 1862	52,588,989 38
To satisfy appropriations required for new exigencies	217,168,850 15
To pay treasury notes due and becoming due	12,639,861 64
To pay interest on proposed new debt	9,000,000 00
Total required by existing appropriations and new exigencies .	$318,519,581 87

It is evident from this statement that the Secretary was speaking in much larger terms than any of his predecessors. Of the "exigencies," some $185,296,000 was for the War Department and $30,609,000 for the Navy

Apparently the prevailing opinion at that time was that the conflict would be of short duration. In the words of the Secretary "It is hardly to be doubted, moreover, that the great body of citizens of the states will, ere long, become satisfied that order and peace . . are preferable to the disorder and conflict and insecurity necessarily incident to attempts to subvert government . . " This idea colored the early fiscal plans of the federal government.

[28]Senate Executive Document, No 2, 37th Cong , 1st Sess , p 9
[29]*Ibid* , p 5

Ways and Means. The Secretary of the Treasury had his own ideas as to the proper method of financing the Civil War Of the aggregate given above, he was of the opinion that not less than $80,000,000 should be provided by taxation, and that $240,000,000 should be sought through loans. He thought that, in every sound system of finance, taxation should provide for the ordinary demands, for the punctual payment of the interest on the loans, and for the creation of a gradually increasing fund for the redemption of the principal of the debt To that end, additional taxation would be necessary.

Chase assumed that not less than $80,000,000 would be required from taxation for the fiscal year of 1862. To be on the safe side, he preferred a larger amount. Three new, or additional, sources were possible: increased duties on imports, direct taxes on personal and real property, and internal duties or excises. At the rate of productivity of that period, the then existing import duties did not supply income enough They would have to be raised. Some articles which were lightly taxed would have to be made to bear more; others which were not taxed at all would have to be put under levy Chase also suggested a duty of two and one-half cents a pound on brown sugar, three cents on clayed sugar, four cents on loaf and other refined sugars, two and one-half cents a pound on syrup, six cents a pound on candy, six cents a gallon on molasses, five cents a pound on coffee, fifteen cents a pound on black tea, and twenty cents a pound on green tea From these he expected a return of $20,000,000 [30] He proposed, also, a duty on certain articles then exempt.

To make sure that governmental needs were covered, he suggested that $20,000,000 be raised by direct taxation on real estate and personal property By constitutional provisions such taxation would have to be apportioned, but he saw no great difficulties in that requirement Proposed taxes were to be levied on bank notes, spring carriages, silverware, jewelry and legacies. He was anxious that Congress should make "such full provision of annual revenue as will manifest to the world a fixed purpose to maintain inviolate the public faith . . ."[31] Chase added that possibilities existed for a more economical conduct of government Savings could be effected by a 10 per cent reduction of wages and salaries paid by the government, further savings could be made in the

[30] *Ibid*, p. 8.
[31] *Ibid*

abolition of the franking privilege, and by the reduction of postal expenses

But even this extensive system of taxation and economy would not put the government in possession of the revenue to supply its needs He advocated a "national loan" of not less than $100,000,-000 in the form of treasury notes bearing 7.3 per cent interest In addition, he suggested bonds or certificates of debt, not exceeding an aggregate of $100,000,000, payable twenty years after date, and bearing interest not to exceed 7 per cent Some of the loan he thought might be floated in Europe. And still further, he advocated two other issues, mainly treasury notes bearing small interest, the two together amounting to $50,000,000—in all borrowing to the extent of $250,000,000 [32]

The problem of the sale of these securities presented some trouble; but Chase thought this question could be solved by sales through the Treasury at Washington, at other government depositories, and at selected post offices. At that time, there was no adequate organization for the distribution of securities whether of government or industrial The suggestion of Chase seemed to be the best available method Later, when large loans were to be floated, it became necessary to place the distribution in the hands of private bankers who developed an organization of their own Jay Cooke became an outstanding representative of this type of distribution

Congress responded only partially to the Secretary's recommendations A few additions were made to tariff rates, excise and income taxes were imposed, but at rates which would not yield the revenue that Chase requested The loan plan was largely accepted. In the loan bills of July 17, 1861, and of August 5 of the same year, Congress authorized the Secretary to borrow $250,000,000 in three-year treasury notes bearing 7.3 per cent interest, or in twenty-year bonds at a rate not above 7 per cent

Almost from the start, the loan policy of the Treasury ran into trouble. Chase had made a good beginning in seeking the cooperation of the leading banks in the eastern cities A controversy soon arose, however, over an Act of August 5, 1861, which was supposed to "suspend the operation of the sub-treasury act so as to allow the Secretary to deposit public money in solvent specie-paying banks and to withdraw it at his own convenience and

[32] *Senate Ex Doc No 2, 37th Cong , 2nd Sess* , p 8

pleasure for the payment of public debts In short, he was permitted to handle the proceeds of the three loans in whatsoever way he pleased "[33] Chase, however, contended, "upon his authority as finance minister, and from his personal knowledge of its purpose, that the act had no such meaning or intent "

The bankers' point of view is expressed in the following statement "The problem for the banks to solve was, how could the available capital be drawn from the people and devoted to the support of the government with the least disturbance to the country, and by what means could arms, clothing, and subsistence for the army be secured in exchange for government credit. As these transactions were simply home exchanges, bank checks, deposits and transfers, the ordinary instruments of trade were the best means for effecting them. To transact this business the most effectively, the preservation of a specie standard by the banks was necessary, and this end in turn necessitated the least possible change in the coin reserve."[34] In short, the bankers' idea was that they should retain their coin reserves, and not pay them into the federal treasury, and that public funds arising because of the loans should be deposited in the banks subject to draft from the government Apparently, Secretary Chase entertained different ideas In this connection, Professor Dewey said "It may at least be admitted, without attempting to locate the blame, that the first material mistake in the management of the war finances occurred when the government declined to use the bank check and the clearing house "

Factors other than those related to the controversy between the Secretary and the banks were involved in the difficulties in which the Treasury found itself in the latter part of 1861 For one thing, it was becoming evident that the war would not be of short duration. No one could guess what the ultimate financial needs would be. In his report on December 9, 1861, Secretary Chase estimated that "the public debt on the 1st of July, 1863, if the war is protracted until that time, on the scale of expenses contemplated by the estimates, will be in round numbers, nine hundred millions of dollars "[35]

Already funds were being withdrawn from the banks for the

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[33]Dewey, *op cit*, p 282

[34]Bolles, Albert S *The Financial History of the United States* (New York D Appleton and Company, 1886), III, 25

[35]*Senate Ex. Doc No 2, 37th Cong., 2nd Sess*, p 23.

purpose of hoarding. The specie reserve was declining. Income from taxes had been far below the expectations of the Treasury, and borrowing had failed to produce the needed sums It was in this atmosphere of discouragement that the banks suspended specie payment on December 30, 1861. As a matter of course, the government was forced to follow suit.

The Issue of Greenbacks. The problem of the immediate moment was to obtain the income which the Secretary estimated would be necessary to supply the needs of the federal government. The Act of February 25, 1862, was in response to those needs It provided one of the most significant bits of financing of the Civil War period Among other things, it authorized the Secretary of the Treasury to issue $150,000,000 of United States notes, legal tender non-interest bearing, payable to the bearer at the Treasury of the United States Chase was permitted to issue the notes "at such denominations as he may deem expedient," but not less than $5.00 Of this issue, $50,000,000 was in lieu of the demand treasury notes authorized by the Act of July 17, 1861. The legal tender conditions were important. The law required that these notes should be received "in payment of all taxes, internal duties, excises, debts, and demands of every kind due the United States, except duties on imports, and of all claims and demands of every kind whatsoever, except for interest on bonds and notes, which shall be paid in coin" These notes were to be "a legal tender in payment of all debts public and private," except, as indicated above, payment of import duties and interest on the public debt. In such cases, coin was to be the medium of transaction. All this signified that the United States notes were tantamount to a forced loan upon the people without interest—a debt of the United States; a form of indirect taxation through inflation

The act of February 25, 1862, also contained a provision to the effect that holders of $50 notes, or multiples of the denomination, could deposit the same with the Secretary of the Treasury and receive a certificate of deposit upon which could be issued bonds of the United States bearing interest at 6 per cent and redeemable at the Treasury after five years [36] Evidently that provision was designed to inspire faith in the ultimate payment of these notes, to prevent their decline in value in terms of gold, and to guard against the unfortunate effects on prices by change in their value

[36] *United States Statutes at Large*, XII, 346

This act contained also a sinking fund provision It required that there should be set aside annually a special fund to be used in payment of interest on the debt, and eventually to liquidate the principal. In addition there was to be purchased each year government bonds equal to the annual interest on bonds previously bought for the sinking fund[37] Further, in the same act, the Secretary was authorized to issue bonds not to exceed $500,000,000, redeemable at the pleasure of the United States after five years, and payable in twenty years. The interest rate was to be 6 per cent.

The issues of 1862 turned out to be only a first installment of greenbacks Two others followed. Some changes in wording appeared in the Act of July 11, 1862, which brought out the second issue These notes also were made legal tender, non-interest bearing, and payable to bearer But the Secretary was authorized to make the notes of "such denominations as he may deem expedient," except that he was prohibited from issuing fractional currency. The issue amounted to $150,000,000.

Once more, by the Act of March 3, 1863, Congress enlarged the issue of greenbacks by $150,000,000. But this act changed the policy for redemption and payment Holders of notes of the issues of February 2, 1862, and of July 11, 1862, were authorized to present them for conversion into bonds on or before July 1, 1863. Thereafter, the right to exchange was to cease.[38] Thereby the United States notes became legal tender, non-interest bearing, nonconvertible obligations of the federal government.

The serious effects of the issue of greenbacks were not immediate, but, eventually, there was a marked changed in the relation of that type of money to gold, to commodities, wages, salaries, and to all payments made in terms of that currency One problem of the depreciation of the paper was its relation to gold. The average price in gold of one hundred dollars in currency, in the New York market, was $98 in January, 1862; it dropped to $76 in December of that year, to $66 in December, 1863, and to $44 in December, 1864. The value of the notes, in terms of gold, began to rise toward the end of the Civil War, but they did not reach par with that metal until the approach of resumption of specie payment on January 1, 1879.[39]

[37] *Ibid*, p 532.
[38] *United States Statutes at Large*, II, 711
[39] Paper currency was quoted at par on December 17, 1878

Of course, it was the changes in price levels that primarily concerned the people Professor Wesley C. Mitchell summarizes one of his studies with this statement "It has been shown that the real income of wage-earners was seriously affected by the changes in cost of living and money wages It may also be inferred from the tables that the economic welfare of all recipients of fixed incomes was altered more than once Analysis would also show that the dissimilar fluctuations of wholesale prices and of wages must have influenced profits And if data were at hand to show variations in the rates of interest on long and short term loans it would appear that lending capitalists, like other classes, had their share in the vicissitudes of the period "[40]

From the point of view of government operations, one of the most serious effects of the greenbacks was a great increase in the cost of the Civil War The government was the largest single buyer in the country of commodities and services. The cost of both advanced with the depreciation of the money. Whether the loss was offset by the use of interest-free money, that is to say, the legal tender non-interest bearing United States notes, is an impossible question to answer To this day, some $346,000,000 of greenbacks are current although they are now being liquidated and will soon disappear as one of the forms of currency. The immediate results are easier to estimate. Thus it has been said that "the total effect of paper issues in increasing the cost of the war has been estimated at between $528,000,000 and $600,000,000, even this large amount is small compared with the burdens which inflated prices placed upon the people in the ordinary relations of trade and industry "[41]

It might be asked, why did the government embark upon such an expensive policy? Could not the results have been foreseen? For one thing the administration labored under the delusion that the war would not last long. Then, the failure to put tax machinery into operation promptly deprived the government of funds which were urgently needed at the start of the conflict Mistakes in loan policy contributed to the difficulties In the face of pressing emergencies, the issue of greenbacks provided an immediate way out of the embarrassing perplexities. The privilege of converting greenbacks into bonds might have forestalled some subsequent

[40] *Gold, Prices, and Wages under the Greenback Standard* Berkeley The California University Press, 1908, p 283

[41] Dewey, *op cit.*, p. 293.

evils, but, the policy of conversion was abandoned. That turned out to be a serious mistake. Conversion would, in time, have removed the notes from circulation. But the Secretary felt that the conversion privilege handicapped the sale of bonds Congress accepted his recommendation [42]

More Loans. The cost of the Civil War continued to increase. During the first quarter of the fiscal year of 1863 the Treasury had already disbursed over $111,084,000. The estimate for the three remaining quarters was $672,843,000. Expenditures to the first of July, 1864, were placed at $1,095,413,000 [43] Since the main reliance was on loans the Secretary called upon Congress to make further grants. From 1861 to 1865, upwards of twenty loans were authorized Some were for large amounts, others were for relatively small amounts Some were to redeem or to replace, in whole or in part, previous loans; others looked to ultimate redemption over a period from five to twenty years. Again, some were sold only at par; others at the market price During those years, some loans were in various stages of redemption, others were to stand on the books of the Treasury for a number of years There were long-time loans, interest-bearing notes, non-interest-bearing notes, and temporary loans

It is evident from the foregoing survey that the Secretary was granted rather wide latitude in conducting the affairs of the Treasury. Some of this flexibility in management was due to necessity, some to design Secretary Chase had rather definite ideas as to how the government fiscal policy should be handled; he kept in mind not only the needs of the moment, but the controllability, notably with respect to future funding. He also favored a plan of national distribution, rather than the concentration of loans in the hands of bankers and capitalists Possibly the latter idea was mingled with the thought of attracting loyalty to the cause of the Union

The outcome of the fiscal operations of the government for the four years (1862-65) was a deficit of $2,619,200,000, the difference between expenditures of $3,348,400,000 and receipts of $729,200,000 Thus the Civil War produced a new era of debt, and laid upon future Secretaries the problem of refunding and consolidating the obligations

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[42] *Senate Ex Doc. No 1, 37th Cong , 3rd Sess* , pp. 25 ff
[43] *House Ex Doc No 3, 38th Cong., 2nd Sess* , pp 6, 7.

Marketing of Government Securities. The early idea of Secretary Chase was to sell government securities from the Treasury, from certain government depositories, and from selected post offices In the case of the loans of 1861, he called upon the eastern banks to co-operate With the growing volume of federal financing, however, those methods were no longer adequate. Throughout the country, funds were available for subscription, but no satisfactory organization existed to locate possible subscribers and to persuade them to buy

In this connection, at that time, "the banker was to a high degree a passive agent in the collection of investment capital, and secondary or retail distribution was not well developed "[44] And further, "the sale of the five-twenties was an important step in the evolution of business institutions and practices in the United States; it was the beginning of a development which in a large measure laid the foundations of the American system of security distribution "[45]

In this development, Jay Cooke was a moving spirit Cooke belonged to the type of men who looked upon failure as an opportunity to start again—a typical attitude of the more active spirits of his time. His relations with the Treasury were established largely through his own activity, combined with some political influence "One is almost awed by Jay Cooke's nerve," says Miss Larson, in her volume *Jay Cooke, Private Banker*. "What would John Stevens of the National Bank of Commerce, of New York, have thought, if a Philadelphia 'broker,' with negligible capital and a small organization, had been commissioned to sell hundreds of millions of government bonds?"[46] But that is actually what happened.

Cooke was a believer in advertising, especially to the small investor. His victory loan poster of 1865 read "The Working Men's Savings Bank. Night Offices for subscribing to the 7-30 loan," and then listed a number of places where bonds could be bought. He blanketed the country with his agencies—some 2,500 selling 5-20's in the loyal states—and treasuries "Apparently, anyone who chose might become a subagent " Bankers, insurance men, real estate dealers, leaders in the community were enlisted in the cause.

[44] Larson, Henrietta M *Jay Cooke, Private Banker* (Cambridge Harvard University Press, 1936), p 119.
[45] Ibid [46] *Ibid*, p 109.

Now as to his contracts with the government "The terms on which Jay Cooke sold the 5-20's were as follows. He was expected to sell a million a day, although he did not guarantee to sell any particular amount. He did not have exclusive control of the sales, the United States Treasury and designated depositories were also authorized to receive subscriptions. Jay Cooke was given full responsibility for the acts of his subagents, whose appointment and management were in his hands, and he had complete charge of advertising the loan, collecting proceeds of bond sales, and of distributing bonds to purchasers He was allowed a commission of half of one per cent on the first $10,000,000 sold, and three-eights of one per cent on the remainder, out of which all expenses and commissions to subagents were to be paid He had to give bond to cover his responsibility for the funds handled "[47]

The National Banking Act. The introduction of the new banking system in 1863 was only partly connected with the management of the public debt. On several occasions, Secretary Chase had recommended to Congress the adoption of a federal banking system In his report of December 9, 1861, he seemed to have been more concerned with the volume of the money of the nation than with a potential market for bonds He stressed the fact that existing circulation depended on the laws of thirty-four states and of some 1,600 private corporations. He was impressed by the fact that the greatest proportion of the circulation of the country was furnished by institutions with the least actual capital. "Well-founded institutions, of large and solid capital, have, in general, comparatively little circulation "[48]

Chase proposed two plans. "The first contemplates the gradual withdrawal from circulation of the notes of private corporations and for the issue, in their stead, of United States notes, payable in coin on demand, in amounts sufficient for the useful ends of a representative currency. The second contemplates the preparation and delivery to institutions and associations, of notes prepared for circulation under national direction, and to be secured as to prompt convertibility into coin by the pledge of United States bonds and other needful regulations "[49] He saw the dangers in the first plan,

[47] *Ibid.*, p 120.
[48] *Senate Ex. Doc. No 2, 37th Cong , 2nd Sess.*, p 17.
[49] *Ibid.*, p. 18.

namely, the temptation in times of pressure to issue notes without adequate provision for redemption. He was inclined to reject this plan because he thought that "these possible disorders so far outweigh the probable benefits that he feels necessarily constrained to forebear recommending its adoption "

The principal features of the second plan, which he favored, were: (1) a circulation of notes authenticated by a common authority, (2) redemption of notes by the banking association, (3) the use of United States bonds and specie to secure the redemption of the notes He referred to the fact that the substance of this plan had met with success in New York State.

Chase returned to the same subject in his report of December 4, 1862, amplifying somewhat the bond security feature. The proposed associations were to be entirely voluntary; they were to invest part of their capital in United States bonds, those securities were to be deposited with the "proper officer of the United States " Thereupon they were to receive bank notes. The Secretary urged that such measures would, among other advantages, give support to the public credit He anticipated within a few years a bank investment in bonds of no less than $250,000,000, and added that "a steady market for the bonds would thus be established and the negotiation of them greatly facilitated "[50] Thus, aside from their usual banking functions, the associations were to become an aid to the government in managing its debt

In the Banking Act of February 25, 1863, Congress accepted most of the recommendations of the Secretary As was to be expected under the circumstances, the first law was more or less of an experiment, and subsequent amendments were required Moreover, unforeseen conditions arose because of the enormous change in economic growth, notably after 1880, when some of the provisions of the law, even with the amendments became antiquated Hence the introduction of the Federal Reserve System in 1913 In spite of early opposition to the National Banking System, charters under the new law were taken out rather rapidly Eventually, purchase of bonds by the banks exceeded the early estimates of Secretary Chase In 1870, the amount held to secure circulation was upwards of $340,000,000.

Refunding of the Debt With more settled times at the conclusion of the Civil War, conditions were propitious for bringing

[50] *Senate Ex Doc No. 1, 37th Cong , 3rd Sess* , pp. 19 ff.

order into the nation's obligations. Although the interest bearing debt in 1865 of $2,217,700,000 seemed to some to be a great burden, yet changing economic conditions soon revealed the fact that this amount could be discharged in a leisurely manner without imposing a great weight upon the people or industries

The war period in the North had been one of great expansion. Good times continued for several years after the conclusion of the conflict. Commenting on the business of the time, John Sherman wrote to his brother on November 14, 1863, of the wonderful prosperity of all classes, especially labor. "We are only another example of a people growing rich in a great war And this is not shown simply by inflated prices, but by increased production, new manufacturing establishments, new railroads, houses, etc. Indeed, every branch of business is active and hopeful. This is not a mere temporary inflation caused by paper money, but is a steady progress and almost entirely on actual capital."[51]

The total foreign commerce (exports and imports combined) of 1870 exceeded that of 1860 by upwards of $140,000,000. During the five years ending in 1875, the annual average of that trade exceeded $1,000,000,000 a year About 1875, the balance of trade turned favorable, and for many years large quantities of gold were imported from abroad Railroad building went on at a rapid pace. About 22,000 miles were added in the decade from 1860 to 1870, and about 40,000 miles during the next decade In 1880 the operated railway mileage reached 93,200, and crossed the 100,000 mark the following year These are only a few illustrations of the rapidity of industrial growth Add to this the fact that the taxable wealth of the United States (gold basis) was greater by $8,000,000 in 1870 than in 1860 and that by 1880 the taxable wealth, compared with 1860, had nearly trebled, and it is very easy to understand that the government had vastly greater resources to support its debt than in former years Thus, so far as income producing power was concerned, refunding encountered no serious problem

The policy from the beginning of the government had been to be free from debt as soon as possible. Instances have already been cited from the opinion of Thomas Jefferson on this issue.[52] In his annual message of December 4, 1865, Andrew Jackson expressed

[51] Isaac Lippincott, *Economic Development of the United States*, 3rd ed. (New York: D. Appleton and Company, 1933), p 229

[52] Cf. p. 321.

the idea that we must not "shrink from devising a policy which without being oppressive to the people, shall immediately begin to effect a reduction of the debt, and, if persisted in, discharge it fully within a definitely fixed number of years "[53] Again, on December 9, 1868, he urged that we should "follow the wise precedents established in 1789 and 1816, and without further delay make provisions for the payment of our obligations at as early a period as may be practicable." Elsewhere, in the same message, he urged that the large amount of capital invested in government securities should be released for the reason that it was not merely unproductive "but in taxation annually consumes $150,000,000, which would otherwise be used by our enterprising people in adding to the wealth of the nation."[54] Congress was no less eager than the President to provide for the liquidation of the debt

The policy of Secretary Chase had been to keep the debt under control as far as possible. His long-time loans usually contained the option of payment within from five to ten years In 1870, something over a billion and a half of bonds were in position where the government could exercise its option By the Act of April 12, 1866, Congress provided for the conversion of temporary and short-time interest-bearing securities into long-term bonds.

In his report of December 6, 1869, Secretary of the Treasury George S Boutwell summarized the debt as follows: "Of the loan of January 1, 1861, the sum of $7,022,000 is outstanding, and payable on the 1st of January, 1871. The loan of 1868, of $20,000,000, is payable in 1873. The bonds known as ten-forty bonds, amounting to $194,567,300, are not payable until 1874. The six per cent bonds payable in 1881, amount to $283,677,600 As the bonds known as eight-ones and ten-forties, amounting in the aggregate to $478,244,900, are not payable and cannot be paid previous to 1874 and 1881, it is unnecessary to consider them in making provisions for a new loan The five-twenty bonds, amounting in the aggregate to $1,602,671,100, are either redeemable or will soon become redeemable, and it is to this class of public debt, and to this class alone, that attention should be directed "[55]

He contemplated a loan of $1,200,000,000, divided into three classes of $400,000,000 each, and payable at varying periods Congress was willing to make provision for payment, but had its

[53]Richardson, *op cit*, VII, 364
[54]*Ibid*, p 679
[55]*Annual Report of the Secretary of the Treasury.* 1869, p xvi

own ideas about the distribution In the acts of July 14, 1870, and of January 20, 1871, authority was conferred upon the Secretary to issue $500,000,000 bonds at 5 per cent, redeemable after ten years, $300,000,000 at 4 5 per cent, redeemable after fifteen years, and $1,000,000,000 at 4 per cent, redeemable after thirty years. The medium of payment was to be "coin" These bonds were made exempt from both national and local taxation

Tax exemption was an issue then, as now. Boutwell gave two reasons for exempting federal bonds from state and local taxes. First, he thought that if the bonds were not exempt "the amount of the taxes imposed by the local authorities will be added to the interest the government will be required to pay"[56] In that event, the nation would be compelled to provide tax income for state and local authorities. Second, since the ability to borrow was essential to the preservation of government, this power should not be impaired, even in times of peace Thus, he added, "The right to use its lawful powers free on any condition, restrictions, or claims of another, is an essential condition of sovereignty, and the national government should never surrender or qualify its power in this particular"[57]

At that time, the provision that payment should be made "in coin" raised no doubts in the minds of investors as to the quality of the metal they were to receive, although some ten years later this matter became an important issue. The commercial ratio of silver to gold had been relatively stable for many years. It was 15 80 in 1835, 15 92 in 1845, and 15.57 in 1870. The great floods of silver from the newly discovered American mines did not begin to flow into the market until after 1870 By 1875, the ratio had declined to 16.64, and by 1880 to 18 05 With the declining price of silver, those who upheld the cause of the white metal insisted upon the "coin" provision that payments on the bonds should be made in silver instead of gold

In a few years, it became necessary to make provision for other Civil War maturities. That was done in the Acts of December 17, 1873, January 14, 1875, and March 3, 1875. With those laws, the funding of the miscellaneous issues of war times was practically complete Whether or not the government would be able to meet the payments at the maturing dates was a question which re-

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[56] *Ibid*, p xvii
[57] *Ibid*

mained for the future to decide Under the various operations of payment and refunding, the balance of the interest bearing debt of the United States was reduced to $1,709,000,000 in 1880 and to $711,300,000 in 1890

The Sinking Fund. This device encountered various fortunes during the Civil War and in the subsequent period. The provisions of the law of February 25 and of July 14, 1870, were not at all times strictly observed To some Secretaries the spirit was more important than the letter of the law. Secretary John Sherman remarked in his report of 1880 that the provisions of the acts had been "substantially" followed He stated that they were executed literally until the panic of 1873, when the shrinkage of government revenues rendered it impossible to meet the fund requirements In 1880, some $51,344,500 was due the fund However Treasury administration succeeded in materially reducing the debt At times, in period of surplus revenue, bonds were purchased in the market at a premium

New Emergencies. In 1892, the interest bearing debt of the federal government reached its lowest point since the Civil War—$585,029,000. Over 75 per cent of the Civil War debt had been liquidated in twenty-five years Several new occasions arose, however, for adding to government obligations One of these was the troubled state of federal finances after the panic of 1892.

The catastrophe of 1892 broke upon the country with great severity, leaving a long trail of bankruptcies, and producing an aftermath of prolonged hard times Incomes of every description declined In order to protect its gold reserve, the government was forced to issue bonds, varying the program on one ocassion by purchasing gold This policy, coupled with rather reluctant co-operation from the banks, succeeded in maintaining metal enough in the federal Treasury to tide the government over a difficult situation—until better times finally returned It made necessary, however, the addition of some $250,000,000 to the national debt Since that occurred during one of the periods of silver controversy, many members in Congress were hostile to the government's program of maintaining gold payments, and refused to grant authority to issue bonds for that purpose. Under such circumstances, the administration was forced to adopt the doubtful procedure of relying on the authority granted in the Funding Act of 1870, and

the Resumption Act of 1875 when the greenbacks or United States Notes were made redeemable in gold

Another occasion arose for adding to the debt in 1898, with the outbreak of the Spanish-American War This time the government adopted a different policy from that which had prevailed in previous wars On June 13, 1898, Congress authorized a loan of $200,000,000 of 3 per cent bonds On the same date, it enacted a war revenue bill which spread taxes over a great many items, presumably adding enough new income to finance war expenses, provided the conflict was not of too long duration Taxes on tobacco and liquors were greatly increased; taxes were imposed also on banks, brokers, proprietors of places of amusement, also stamp taxes on many commercial transactions and on various types of documents The list of imposts included legacy taxes, distinguishing between direct and collateral heirs, and including a provision for progression, according to the size of the estate up to 15 per cent. On that occasion, the country enjoyed a new experience in the marketing of its obligations Although the bonds were to pay only 3 per cent, they were oversubscribed six or seven times The loan, or at least a part of it, was designed for popular subscription, with denominations as low as $20

From 1901 to 1916, the interest bearing debt of the federal government never exceeded a billion dollars. The financing of construction of the Panama Canal from 1904 to 1916 required occasional borrowing, but only about one-third of some $400,000,-000 required for these works was handled in this way The coming of the World War I, with the heavy burdens which it imposed, produced marked changes in the federal finances

Summary When the federal government came into existence in 1789 the question arose in regard to its assumption of the state debts which had been made previously during the Revolutionary War During that period the states had borrowed large sums on their own obligation from individuals and foreign nations to finance the war with England Hamilton contended that since these debts were contracted for a common cause, and since the federal government shared sovereignty through delegation of power from the states that it should assume these obligations In general, his views prevailed with the Congress. The federal government therefore began its existence with a debt which was contracted before it was organized

The effect of the assumption of this debt by the federal government was immediate It definitely established the soundness of its credit, and made it possible for the central government to borrow under favorable conditions in the future It saved the states from the embarrassment of repudiation which undoubtedly would have occurred if the federal government had not assumed it.

Congress immediately devised a rather complicated plan of debt retirement and debt management The excess income from tariff duties and excises contributed greatly toward debt payment. In 1791, the First United States Bank was organized to assist, among other purposes, in management of the public debt

The War with England in 1812, sometimes known as the Second War of Independence, greatly added to the federal debt It was another case when a war caused the debt which was then slowly paid only to be incurred again by a subsequent war or other catastrophe, such as has been the experience of this country throughout its national existence of some one hundred and sixty years. By reason principally of the tariff acts of 1824, 1828 and 1832, and also because of reduced government expenditures, the national public debt was rapidly reduced and in 1836 it was completely paid After that date, surplus funds were distributed among the states for public internal improvements

But Congress was too generous or too optimistic Beginning almost immediately after 1836 public expenditures rose, chiefly because of a series of panics and hard times, and also partly because of decrease in revenue, deficits began to appear.

The federal government was forced to resort to borrowing from which it never again extricated itself as a debt-free nation

When the Civil War came in 1861, the Treasury was about empty; there was no adequate tax system in existence for raising large volumes of revenue, and what was almost as bad was the fact that the private banks were adamant when asked for a loan It will be remembered that the federal government had severed its relations with the private banks in the days of Jackson in 1836 and had organized the independent treasury system for handling its own fiscal affairs

Being without money, or a means of raising it by taxation, or by loans, and with an expensive war on his hands, Lincoln asked Congress for the privilege of issuing irredeemable legal tender, United States Notes or greenbacks Some $450,000,000 of these

notes were issued during the Civil War The resulting inflation, greatly added to the over-all costs of the war The federal government made provisions for the National Banking System in 1863 to assist in selling United States bonds

The Civil War closed with a large federal debt It was slowly paid until in 1914 it had reached roughly a billion dollars when it again began to mount because of World War I

The period of national existence prior to World War I presents some valuable experiences in debt management. It clearly shows that the chief cause of public debt is war and public internal improvements Except in one instance, the federal government was never debt-free, and scarcely was the debt substantially reduced before it had to be increased. In a few instances, sinking funds and reserves were used to good effect, but on the whole their efficiency was clearly left in doubt.

TEXT QUESTIONS

1. List the various sources of government income.
2. Why are local governments likely to have the largest funded debt in the country?
3. How did Alexander Hamilton propose dealing with the three types of indebtedness facing the country in 1789?
4. Discuss the terms of the Funding Act of Aug. 4, 1790
5. Give details of the Louisiana Purchase financing
6. What were the special features of the plans for meeting expenses of the War of 1812?
7. Show how these arrangements worked out
8. Explain the special characteristics of the financial reorganization after this war
9. How did the panic of 1837 affect the national debt?
10. Compare the financial and industrial status of the North and the South in 1860
11. What were Secretary Chase's ideas for financing the Civil War? Give details
12. Define the term Greenbacks How were they used during the Civil War?
13. Explain how Greenbacks increased the real cost of the Civil War.
14. What was Jay Cooke's place in the marketing of federal securities?
15. What were Secretary Chase's arguments in favor of a national banking system?
16. Why was the post-war debt refunding comparatively easy? Be explicit.
17. List the items making up the national debt on Dec 6, 1869
18. What complications arose from the term "in coin", and why?

19. How were Civil War bond maturities met between 1865 and 1890
20 What means did the Government adopt for handling the financial emergencies of 1892-93?
21 Give details of the financing of the Spanish-American War and the Panama Canal

APPLICATION PROBLEMS

1 Suppose the federal and state governments were to enter upon a large joint project, such as the construction of a drainage canal or a dam Would you advise the two governments to issue joint bonds upon which they would be liable for the principal and interest jointly and severally, or would you think it better for each government to issue its own separate obligations?
2. It has been contended that the federal and state debts are burdenless because they merely represent exchanges, both as to their creation and payment, between the individuals and their governments Only foreign debts of a government represent actual burdens Can you justify (or condemn) these points of view?

RESEARCH TOPICS

1 Make a study of the debt history of your state; of your city or other local unit of government What is the procedure of debt flotation, of debt liquidation? Is the sinking fund method of debt liquidation used in either case? If so, with what results?
2 What can be said for or against gold clauses in private and public contracts? Is there any evidence that such clauses in contracts have improved the credit standing of the borrowers? Consider such cases as Norman v The B. and O Railroad, 55 S. Ct 407 (1935), and Nortz v United States, 55 S Ct 428 (1935).

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CHAPTER 14

THE PUBLIC DEBT (Continued)

Until the emergency relief financing, beginning about 1933, wars and internal improvements were the chief cause of the national debt. Thus, through more than one hundred and forty years of history of the United States Government, the sequence has been the piling up of debt during a rather brief period of conflict followed by a rather long period in which the debt has been gradually reduced. The law makers of the United States have always regarded a public debt as a national burden and have set its reduction as one of the important goals of fiscal policy. As has been indicated previously, the debts of the American Revolution, and of the War of 1812, were entirely liquidated by January, 1835. At that time a committee of the Senate forecast an annual surplus of upwards of nine million dollars during the next eight years, and began distributing the surplus funds among the states.

The Panic of 1837, and the subsequent hard times, upset these calculations somewhat, still later the Mexican War made borrowing necessary; but, even so, at the outbreak of the Civil War in 1861, the interest bearing federal debt amounted to only $64,600,000. It rose to $2,217,000,000 during the war period. Then followed the long grind of reducing those obligations, which was not entirely accomplished before further additions were made because of the Spanish-American War and the World War I.

The tax systems of today can be understood only by reference to the historical conditions under which they have been developed. It has usually been the case that particular kinds of taxes have been added to the list of sources without the guidance of a prearranged plan What a modern government needs is revenue This need frequently appears in an aggravated form in what are called "times of emergency" Under such conditions, all available financial resources are marshalled for government support, frequently without too much thought with respect to their incidence or burden.

Debts of the World War I. The World War I, and the dozen years thereafter, supplied another chapter in the history of public

debt accumulation and management, and of at least partial liquidation The period of debt reduction came to an end with the beginning of emergency relief spending in 1931 Then followed another period of borrowing which lifted the interest bearing national debt to over $43,000,000,000 by the spring of 1940

In August, 1914, at the outbreak of World War I, no one could forecast the immediate, much less the ultimate, effect of the conflict on the domestic and foreign commerce of the United States But it was reasonably certain that imports would decline partly because of the shutting off of trade with the central empires which were important exporters to the United States, partly because a lack of shipping would interfere with our trade elsewhere in the world Federal taxing machinery was geared to the new emergency.

By the Revenue Act of 1914, duties were increased on fermented liquors, special taxes were laid on bankers and brokers, and use was made of various stamp taxes In the main, the Revenue Act of 1915 extended the imposts of the Act of 1914; the law of 1916 not only provided greater variety of sources of income, but also considerably increased the rates on existing items Personal income taxes were required to contribute a larger share than formerly; inheritance taxes, used on three former occasions (1797-1802, 1862-1870, 1898-1902) as an emergency source, were again imposed, and an excise tax of 12 5 per cent was laid on the net profit of manufacturers of munitions

The first income tax under the Sixteenth Amendment was imposed in 1913 It was moderate in its exemptions; also in its rates of progression The highest surtax rate, 6 per cent, was imposed on net incomes of $500,000 and over But this new resource was shortly to become an important means of revenue, the rates being stepped up rapidly in the war revenue acts. By the Revenue Act of 1916, the normal rate on individuals and corporations became 2 per cent instead of one; the graduated surtax rates were raised on incomes of $80,000 and over; on net incomes of $2,000,000 and above the surtax was increased from 6 to 13 per cent Among other changes, the law of 1917 added an excess profits tax and increased the rates on inheritance

Thus, by the time the United States became a participant in World War I, an improved tax machinery had been fairly well developed to serve war needs. During the conflict, subsequent revenue measures added to existing rates and introduced new

tax categories, but immediate needs made the borrowing of large sums of money necessary. How much could be absorbed at any one time by the general public and by institutions was a question both with government officials and with expert banking opinion

On April 24, 1917, less than three weeks after the declaration of war, Congress gave authority to the Treasury to issue $5,000,000,000 in bonds For the following year, the Secretary of the Treasury estimated the needs of army and navy at $10,000,000,000, and $6,000,000,000 was to be used as loans to foreign governments It is evident from these figures that the federal government proposed to deal with vastly greater sums than at any previous period in our history, there was no certain basis for estimates as to how much the country could absorb, and consequently the only recourse was to experiment But the outcome was something of a surprise to the forecasters because all the loans were over-subscribed

One great advantage which favored the federal government in this new emergency was that since Civil War times both public and private machinery had been developed for the widespread sale of securities. Over the years, large investment houses had built up connections in every part of the country, through banks, stock and bond houses, and small local dealers in hundreds of cities; in addition, the recently organized Federal Reserve System was sufficiently well established to aid the Government in marketing its securities The distribution policy was aided further by high-pressure selling campaigns featured by extensive advertisement, with posters, literature of various kinds, and nation-wide speakers' organizations.

With respect to borrowing policy, the United States Treasury used bonds for the longer-term loans, and treasury certificates of indebtedness issued in anticipation of income from the various loans In addition, in order to promote thrift, and to encourage contributions to war purposes by the smallest class of investors, the government developed a plan of subscription through the sale of thrift stamps in denominations of twenty-five cents, and of savings stamps in denominations of $5 00, these were sold through the post offices In one year, the sale of these debt devices amounted in cash to something over $850,000,000, with a maturity value of over $1,000,000,000

Four issues of bonds were put out during the period of the war; they are identified as the First Liberty Loan, etc The first two

appeared in 1917, amounting together to $5,000,000,000, and the second two in 1918, amounting to $9,000,000,000. In May of 1919, the Victory Loan of $4,500,000,000 was offered The loans were offered on slightly different conditions with varying rates of interest and with different exemptions as to inheritance, estate, and income surtaxes. The Victory Loan, for example, was to mature in 1923, and was redeemable in 1922. The great increase in tax revenue at the end of the war period justified the expectation that this loan could be retired. As on former occasions, the Treasury arranged the maturity of the loans so as to provide for convenient redemption, or for refunding at low rates

The Interest Bearing Debt in 1920. A description of the interest bearing debt of the United States in 1920 is shown in the following table

INTEREST BEARING DEBT OF THE UNITED STATES IN 1920

RATE OF INTEREST	AMOUNT
2%	$ 958,000,630
2½%	11,539,360
3%	78,894,500
3½%	1,410,074,400
3¾, 4, 4¼, 4¾%	20,832,551,470
5, 5¼, 5½, 5¾, 6%	770,035,000
	$24,061,095,360

Anticipation Loans. The immediate needs of the federal government for funds developed more rapidly than income, either from taxes or from borrowing Thus, the government was continually in the market for short-time loans, the aggregate of which, from April 6, 1917, to October 31, 1920, was $28,987,514,500. A summary of these operations is given in the table on the opposite page [1]

War Finance: Conscription of Wealth. When the United States entered the World War I in 1917 some American authorities advocated the policy of "taxing to the bone" There is a great

[1] *Statistical Abstract of the United States*, 1920, p 686

TREASURY CERTIFICATES OF INDEBTEDNESS

April 6, 1917, to October 31, 1920

Issue		Total Amount
Loan certificates		
In anticipation of	First Liberty Loan	$ 868,205,000.00
	Second Liberty Loan	2,320,493,000 00
	Third Liberty Loan	3,012,085,500 00
	Fourth Liberty Loan	4,659,920,000.00
	Victory Loan	6,157,589,500 00
Series of 1920		2,360,044,500 00
Series of 1921		461,042,000 00
Total loan certificates		$19,839,279,500 00
Tax certificates		
In anticipation of income and profit taxes		
	1918	1,624,403,500.00
	1919	3,354,787,500.00
	1920	3,078,030,000 00
	1921	1,091,014,000 00
		$ 9,148,235,000 00

difference in reasoning among those who have discussed the financial policy in conducting a war both with respect to the tax-loan policy during the conflict, and in anticipation of war. With respect to the latter, there is a considerable body of popular opinion which favors the conscription of wealth as well as of men during a war period. It is impossible to decide fiscal policy as a matter of social justice It is commonly said that if men are required, against their will, to enter the ranks as soldiers, because of the demands of war, it is only fair that wealth also should be conscripted This issue involves not only matters of ethical right and wrong, but the concrete effect of wealth conscription on the productivity of revenue, on the success of industrial activities upon which the effective prosecution of a war depend, and eventually on the demands that the needs of war make upon industries In a period of conflict, no country that could forecast the effects of its policy would adopt measures that would defeat its war purposes. Consequently, the fiscal policy involves not only questions of revenue, and of so-called justice in the system by which it is derived, but much more, the general economic

policy which stirs men and industries to maximum co-operation and production

It seems to be implied in the idea of wealth conscription that wealth is made up largely of liquid purchasing power which may be transferred by taxes from present owners to government The matter is not this simple. In fact, more than 70 per cent of the wealth of industrial nations consists of such tangible things as factories, tools, machines, railroads and other means of communication, and of urban and rural land, not to name them all These can be of use to the government only to the extent that they can be made to produce goods and services Thus the real issue is not one of the rights and wrongs of conscription, but of an effective economic organization which can produce its optimum. The real question is whether in war times, wealth of the description named above can be made to render a more effective service in the hands of government than if left to private management As yet we have no decisive answer to this question

Some kinds of conscription would take the form of graded subscription to government bonds Property owners, large and small, would be required to buy government securities at a low rate of interest, or at none at all, with amounts of subscription graded according to the magnitude of their wealth, possibly analagous to the gradations under the present income tax arrangements The percentage subscription for a person of wealth of $10,000 would be higher than for one of $5,000, and considerably higher for one with wealth of $100,000 and so on up to some maximum Such a plan would not require the subscriber to make his total purchases at once, but from time to time as the government presented its demands

As stated above, the assumption is that wealth is something liquid, or at least liquid enough for the owner to convert the required portion of his wealth into government securities But, in fact, the conversion would involve serious problems To take a rather simple illustration. A certain person is a retired capitalist whose fortune of $1,000,000 is invested in government bonds and bonds of the City of New York Another person whose property is valued at the same amount is engaged in manufacturing "with working capital no more than sufficient for the needs of his business." Suppose each person is required to subscribe for federal bonds to the extent of 30 per cent of the value of his property, namely, $300,000. "The first capitalist would have to sell his

government and New York City bonds to realize $300,000. To whom would he sell them? He could not sell them to other capitalists for they would face the same problem as confronts him. To hand the Treasury $150,000 government bonds and $150,000 New York City bonds would be merely to transfer the problem for solution to the Treasury "[2] The problem of the second man would be even more difficult. His fortune is invested in concrete things — factory, tools, machines, raw and finished products A suggested solution would be to put a mortgage on his properties But the whole problem would be to find purchasers at a time when all persons with property were seeking means for making subscriptions of federal bonds

The situation would be even more difficult for owners of urban and rural real estate. Such property constitutes a very large percentage of the national wealth, and, as a rule, the owners possess only a small amount of liquid assets in relation to the total value of their property. Thus, for such owners to meet subscription requirements, would impose almost insuperable difficulties In fact, the conscription plan merely puts a government in possession of claims to wealth, in most cases to tangible and material goods, and the problem would be to convert these into liquid spending power. The most direct route to the supply of cash needs is for a government to tax incomes of individuals and of productive enterprises, or to borrow.

Should Government Finance a War by Taxes or by Loans? Opinion on this issue has run the whole gamut from support entirely by taxes to support entirely by loans. Those who take a middle ground seem to have the better of the argument Ricardo made out a case for the meeting of war expenditures immediately from taxes Among other things he argued that borrowing created a permanent deficit, that it caused a rise of interest rates and a fall of wages, thus transferring the burden of war expense from the capital-owning to the working classes, and that borrowing dissipated the capital of the country

This last idea is expressed in the following statement "But the principal of the debt — what has become of that? It exists no more The consumption which has followed the loan has annihilated a capital which will never yield any further revenue The society is deprived not of the amount of interest, since that passes from one hand to the other, but of the revenue from a

[2]Cf *Wall Street Journal*, May 6, 1939

destroyed capital This capital, if it had been employed productively by him who lent it to the State, would equally have yielded him an income, but that income would have been derived from a real production, and would not have been furnished from the pocket of a fellow citizen "[3]

The argument with respect to the "destruction of capital" seems to be more of an indictment of the wasteful uses of funds in war than of the methods of financing war A conflict not only extinguishes funds which might have been used to purchase consumers' goods, but also a part of the future savings of the community. In this respect, a war deprives a community of what might have been saved in peaceful pursuits.

The practical aspect of war financing, however, is of more critical moment than the destruction of prospective capital The fact of the matter is that a modern war could not be financed, at least in its beginning, entirely from taxation; nor, if the war were a protracted affair, could the total expenses be met in this way. It always happens that the expenses of war mount step-wise, but they are heavy in the initial years because of the need of putting the war machine into operation Meanwhile, taxes can only be collected after income — goods and services — has been produced Thus, government receipts from taxation must lag behind — sometimes quite a way behind — actual income and productivity. The total ordinary receipts of the United States in 1918, the first full year of the war, were only $3,600,000,000, but the total expenditures were $12,600,000,000, of which more than $10,000,000,000 were made by the army and navy [4]

In this connection, Professor E R A Seligman remarked with reference to the expenditures of the federal government in 1918 that, " . it would have been necessary not only to take by taxation most of the smaller incomes and virtually all of the higher incomes, but also to confiscate virtually all of business profits, and finally, after levying crushing taxes on consumption, to take such part of the existing private property of the United States as could find a ready market abroad."[5]

Adam Smith held to the view that borrowing was necessary. His thought was that in peace times the ordinary expenses of

[3] *Principles of Political Economy and Taxation*, ed. Sir E. C. K Gonner, (London· G Bell and Sons, 1932), p 229 note.

[4] *Statistical Abstract of the United States, 1936*, p. 164

[5] E R A Seligman, *Essays in Taxation* (10th ed , New York The Macmillan Company, 1925), p 744

government are just about equal to the ordinary revenue; when war comes people are unwilling to sanction an increase in taxation in proportion to the increase in war expense Moreover, heavy taxation would cause them to become "disgusted with the war." The facility of borrowing frees them from the "embarrassment which this fear and inability would otherwise occasion " Borrowing, plus perpetual funding, make possible the raising of the largest sum of money with the smallest possible increase in taxes [6]

Moreover, the payment of war debts in a subsequent period of peace presents unusual difficulties If, after defraying the ordinary expenses of government, the old revenue together with the new taxes, produces some surplus revenue, it might be converted into a sinking fund for paying the debt. But a sinking fund is an inadequate means of providing for the debt largely because during periods of peace governments find it more convenient to defray occasional extraordinary expenses by misapplying the sinking fund than by the imposition of new taxes

An author is apt to base his reasoning on conditions that exist in his own country and ignore, either wholly or in part, conditions that prevail elsewhere in the world Thus when Adam Smith took the point of view that the payment of war debts encountered almost insuperable difficulties, he was thinking of conditions that existed in his own country Throughout the history of the United States, efforts have been made to reduce the national debt whether incurred by war or otherwise. As has been shown, the debts of the Revolution and of the War of 1812 were completely extinguished by January, 1835, those of the Civil War were so nearly paid by 1914 that only a moderate effort would have been required to efface them entirely within a few years, and the debts of World War I were greatly reduced in the years from 1922 to 1929.

It has been a tradition in the United States to get rid of previous war burdens as rapidly as conditions warranted Possibly, one reason for the difference in attitude between the United States and the countries of Europe has been the capacity of this country for industrial expansion and wealth creation Under other conditions a different policy might have been followed In this country, the liquidation of previous debts has imposed no serious burdens upon the industries or the people By adding to this fact the traditional antipathy of this country for national debts, a situation is found here which does not prevail elsewhere

[6] Adam Smith, *The Wealth of Nations*, Book V, Chap 3

Adam Smith was approximately correct in the analysis of the debt history of his own country. The debt spiral has been continually upward with only an occasional, and minor, reduction. An English author has remarked with a show of humor that "national debt is so universal that it has been described as the first stage of a nation towards civilization." The debt of the United Kingdom at the Revolution in 1688 was about £664,200, during the reign of William III it increased to £12,767,000, at the accession of George I, it was £36,000,000; at the end of the American Revolutionary War it was £273,000,000.[7] With this picture before him, Adam Smith could draw conclusions with regard to the future of the debt of his own country, and that history has been repeated elsewhere with the added feature, occasionally, of repudiation in one form or another.

The idea may be presented once more as to the relation of war loans and war taxes. This time the reasoning is that of Professor Henry C. Adams, an American economist. Adams did not commit himself to a definite proportion between loans and taxes. He asserted that there were special cases in which the elements entering the problem would be different. But, he argued, at the beginning of hostilities, revenue from loans may properly outbalance revenue from taxes; this relation, however, must be reversed gradually until the chief burden of a long-continued conflict must rest upon the proceeds of taxes. He advanced several reasons to support his idea. First, at the outset of a war, the demands for funds are great; but newly levied taxes cannot be made immediately productive. Second, the strain upon industries is greatest at the beginning of war when it becomes necessary to adjust labor and capital to new conditions. He said: "A condition of war is not a condition of peace from any point of view, and the industrial transition from the one to the other is always attended with danger and may prove the occasion of disaster."[8] When this chasm has been bridged, the public financier can extend his tax system with as much confidence as if the people were living in a state of peace. Thus, according to this plan, revenue from taxation would be gradually increased until war demands are met from the proceeds of established taxes.

The Tax-Loan Policy Must Meet Particular Conditions. Many discussions of war finance assume much simpler conditions than

[7] *Encyclopaedia Britannica* (9th ed.), XVII, 246.
[8] H. C. Adams, *The Science of Finance*, p. 541.

those actually present at the beginning and during the progress of a war No two situations are alike, whether within given countries, or among countries With modern mechanized wars, no matter how extensive the previous preparations, funds are never sufficient to meet the costs of the immediate impact of the conflict. Borrowing is necessary at the beginning The duration of the war, and this cannot be forecast, may make necessary changes in financial plans, regardless of the care with which they had been formulated at the beginning In the case of a war of long duration, a country, no matter how rich, will be forced to live to some extent upon its capital, that is to say, to allow productive equipment — factories, machines, means of communication, among others — to be operated without necessary maintenance and repairs This, at least, is a disguised system of borrowing, and may become actual borrowing

In addition, under modern conditions, no country is self-sustaining with respect to war materials These include such innocent looking commodities as cotton, cereals, meatstuffs, and metal and chemical products of many descriptions Such needs involve foreign trading With peace-time transactions, exports of goods and services are purchased by the import of goods and services But war disrupts the ordinary flow of production, turns it into other channels, and thus handicaps foreign trading, and the methods of making payment. Hence, foreign borrowing becomes necessary This was the case in World War I when it was impossible for the allied countries to pay for imports from the United States by the ordinary peace-time methods

But if borrowing is a condition imposed by modern warfare, heavy taxation is also necessary. In war times especially, a country must protect its credit, otherwise borrowing encounters increasing resistance Meanwhile, interest rates rise and war costs increase — a condition which tends to become cumulative In the Civil War period, the United States was faced with that difficulty, largely because of the failure to make prompt use of the tax system Moreover, borrowing, if not accompanied by heavy taxation, leads to inflation, government, being the chief buyer of goods and services, adds to its burdens by being compelled to pay advancing prices. The present and future cost of the war is increased Further, taxation is one device for discouraging unnecessary consumption by people and industries at a time when government needs all the available resources of the country

Because of these and other factors, a situation must be constantly submitted to analysis, and policy adapted to changing conditions.

The Time Distribution of War Burdens. It is sometimes urged that support of war largely by loans shifts the burden to future generations. A generation, or even the future, is an indefinite time; and it might be contended that, at least for progressive countries with expanding industries, the payment of a debt will impose less burden when spread in the future than if paid by taxes during the war period In addition, to the extent that war brings a benefit, and it turns out that way sometimes, the next generation, or generations, reaps an advantage and consequently is entitled to bear some burdens If the war of the American Revolution gave the opportunity of developing the industrial and social life of the country, the benefit has accrued to all men and women in America since that time.

Purely on economic grounds, however, it is by no means certain that support of war largely by taxation relieves a future generation of burdens Such burdens are not always evident. They are not revealed alone in the payment of sums in taxes which are transmitted by government to bondholders. The burden is often concealed in a procession of future events which had their roots in the war. For one thing heavy taxation during the war is a depressant One purpose is to discourage certain kinds of peace-time consumption in order to conserve spending power for war materials and supplies. In short, the industrial structure of a country undergoes notable changes. With the return of peace a rather long period of reconstruction is necessary Normal progress has been retarded Changes which the war had caused in the industrial structure may give it a somewhat different, and, perhaps, disadvantageous, direction as compared with the previous order Moreover, the tangled strands of governmental war control over industries and citizens may be so engaged as to render disentanglement a slow and very uncertain process. These matters cannot be expressed in financial terms; but they are as truly burdens as if paid in the form of tax bills The aftermath of war, which may be of long or of short duration, is sometimes as burdensome as the war itself

Inter-Allied War Debts. A peculiar feature of World War I was the large volume of inter-governmental lending. In the case

of the United States, a great governmental organization was created to handle the foreign commercial relations of this country. The War Industries Board, for example, with the assistance of the Export Council, controlled the buying of the allies This Board was created on July 28, 1917, by the Council of National Defense with the approval of the President

Meanwhile, in the allied countries, the great demands of the war made necessary the concentration of industrial activity on the production of war materials and the abandonment, to a large extent, of the customary goods for the export trade. Industries in the United States were required to supply large quantities of war materials, and much larger amounts of foodstuffs than in former days. In short, there was no possibility, under those conditions, of settling the trade balances between the allied countries in the customary way. Their exports of goods and services fell far short of paying for what they bought Thus borrowing in the United States became necessary Thereby was created the major part of the inter-allied war debt

On four occasions from April 24, 1917 to July 9, 1918, Congress authorized advances to foreign governments. Great Britain received the largest credit, namely, $4,300,000,000; France was granted $3,000,000,000, and Italy, $1,600,000,000 The borrowed sums were spent mainly in the United States for munitions and foodstuffs American exporters were paid from the credits thus established Those transactions involved additions to the federal government borrowings to satisfy the credits advanced to foreign countries After the conclusion of the war the federal government extended relief loans to a number of the smaller countries — an aggregate of about $790,000,000. Payments of both war and post war debts were provided by agreements with debtor countries Prior to the funding arrangements, the grand total of those debts was $12,036,376,000 [9] In the debt settlements, considerable reductions were made in the case of all countries (so-called cancellations).[10]

These loans to foreign countries became a part of the federal national debt; the repayments — if they were ever made — would provide a substantial income for the reduction of this debt,

[9] H G. Moulton and L Pasvolsky, *World War Debt Settlements* (New York: The Macmillan Company, 1926), p 80

[10] See *Statistical Abstract of the United States, 1938*, p 209, for a statement of foreign debts.

again with the question whether Congress would apply these receipts to reduction purposes

Many persons raised doubts as to the ability of the allied countries to pay. Two questions were involved, first whether in addition to the revenue needs of the countries, the necessary sums for debt payment could be raised by taxes within the countries Practically every one agreed that this element in the problem presented no difficulties The second issue was whether the annual payments could be transferred to the United States without disturbing effects on the mechanism of international trade and settlements. In addition, the debtor countries complained that the high protective tariff of the United States handicapped payment, that this country was rendering certain international services for itself which were formerly left to foreign countries, as the carriage of a larger portion than in former years of our international freight, and that the debts were contracted on a war-time price level, whereas repayments were to be made in terms of goods priced on a lower basis During the depression years all countries except Finland suspended payment

Reduction of the War Debt. Through skillful handling of the public debt, and aided by a long period of post-war prosperity, the war debt was reduced with unusual rapidity In ten years, the secretaries of the Treasury were able to report a debt extinguishment in amount more than three times that of the total obligations of the Civil War In 1919, the interest bearing debt was $26,596,701,000 — the highest point thus far reached in the history of the United States By 1930, it had been reduced to $15,900,000,000 At that time, the country looked forward to the total liquidation of the national debt during the decade of 1940 to 1950 Hard times after 1929, and the new attitude with respect to duties of government, completely changed the outlook. On four occasions (1920, 1922, 1924, 1927), the retirement exceeded one billion dollars a year — all in all, with the payments of the intervening years, about $9,300,000,000

This rapidity of payment did not meet the approval of all members of Congress, or of all men in business life For one thing, it was said that this policy placed too heavy a burden on a single generation. In addition, it was claimed that the high tax level which made possible large repayments stood in the way of more rapid business progress — a point that could hardly be main-

tained in view of the so-called "avalanche" of prosperity that fell upon the country during much of the decade from 1920 to 1930

In the management of the debt, the secretaries of the Treasury were favored by the fact that the war obligations existed in the form of relatively short maturities Of the net debt outstanding in 1920, $15,000,000,000 matured in the years from 1928 to 1947. In addition, upwards of $2,000,000,000 loans and tax certificates matured within a year, and the maturities of Victory Notes and war-savings certificates were within less than three years. In other words, some $7,000,000,000 of the debt was under almost immediate control.

There was in prospect over the coming decade a decline from the high rates of interest which prevailed during the war period; also some decline in the financial needs of the government. Such conditions could not be forecast with certainty, but with a large amount of the debt available for retirement the Treasury could afford to adopt a waiting policy for the purpose of funding the debt at lower than prevailing rates, or payment with surplus revenue Thus, the Secretary used certificates of indebtedness payable in a year or less, and of Treasury notes with maturity from three to five years Those devices were used also in 1927 and in 1928 in the redemption of the Second and Third Liberty Loans The outcome of these methods was the final payment of a portion of the debt, as indicated above, and a material reduction of the interest rate on the remaining portions.

New Deal Philosophy. President Roosevelt, in his book *Looking Forward*, said. "Our task now is not discovery or exploitation of natural resources or necessarily of producing more goods It is the soberer, less dramatic business of administering resources and plants already in hand, of seeking to re-establish foreign markets for our surplus production, of meeting the problem of underconsumption, or distributing wealth and products more equitably, of adapting existing economic organization to the service of the people "[11] In short, to use the phraseology common at that time, "The days of pioneering are over," "the frontier is gone," "we have reached maturity."

Elsewhere in the same volume President Roosevelt said "As I see it, the task of government in its relation to business is to

[11]Franklin D Roosevelt, *Looking Forward* (New York The John Day Co , 1933), p 32.

assist the development of an economic declaration of rights, an economic constitutional order. This is the common task of statesmen and of business men. It is the minimum requirement of a more permanently safe order of society. Happily, the times indicate that to create such an order is not only the proper policy of government but is the only line of safety for our economic structure as well."[12]

His concluding paragraph was. "There has been an insistent demand for a New Deal. I have been telling you some of the ways in which I conceive these insistent demands ought to be met I should like to say again that there is neither magic nor cure-all in any of this Hard necessity drives us now. The mandate is clear and peremptory. These are the things we must do."[13]

Scattered through the volume are certain ideas which further elucidate the philosophy: "The time has come for rational planning both for industrial and social life; in the uprush of former years the forgotten man has been neglected; productive business has fallen into the hands of a relatively few "barons" who handle their affairs as if they were their own preserves; the modern state is going into business, whether it likes it or not. We are being forced into business by modern civilization."[14]

The Program. With this background in mind, a study may be made of the concrete measures, their cost, how they were financed, and their incidence and burden.

Among the fore-runners of emergency legislation was the Reconstruction Finance Corporation, authorized by an Act of January 22, 1932. While that organization was not a part of the New Deal legislation it was promptly taken up by the new administration and its scope greatly enlarged. The act provided that the Corporation should have a capital of $500,000,000, subscribed by the United States It was authorized to issue bonds, notes, debentures, or other obligations, not to exceed three times its capital. It was not the intention that this organization should add to the cost of government It was primarily a lending agency The purpose was to "thaw out" the frozen assets of banks and other businesses, and to aid in the financing of agriculture, commerce and industry.

[12]Ibid., p 33.
[13]Ibid , p. 257
[14]Ibid , p. 91

One of the first lines of attack employed by the new administration was to find jobs for the unemployed. Thus appeared, in time, the Public Works Administration (PWA) charged with the duty of administering a public works program, which eventually spread over the entire country; also the Works Progress Administration (WPA) with the general purpose of finding jobs for those who could not be employed by other means. With the further purpose in part of "priming the pump" such enterprises, among others, as the Federal Housing Administration, slum clearance, and emergency housing were undertaken. The conservation of natural resources was another element in the program, and under this caption were mingled other ideas more or less remotely connected with it, including such power projects as the Tennessee Valley Authority (TVA) and the construction of great power works such as Bonneville and Grand Coulee Possibly under this same head belongs expenditure for further canalization of streams, improvement of watersheds, the construction of a timbered belt in the semi-arid area, and the Civilian Conservation Corps (CCC). Aid to agriculture included appropriations for crop control and soil conservation In addition were loans and grants to states and municipalities for various purposes. Because of the new work thrown on various departments of the federal government, the budgets of such divisions usually included the item "emergency expenditures," which in the aggregate amounted to a considerable sum.

Revenue and Expenditures. The new enterprises cost money — much more than could be provided by the ordinary receipts of government As has been said elsewhere, the ability of people and of industries to contribute to the collective support depends upon what people and industries can produce. Among other things, their productivity depends upon the general condition of business. Government revenue, from whatever source, fluctuates with the fate of the gainful enterprises of the country It rises with an increase of national income, goes in the other direction when national income declines. In 1929, which, at least in its early two-thirds, was a fairly good year, the national income was set down as $81,128,000,000 The changes in this important item are shown in the table on the following page

It will be observed that the national income in 1932 was about half that of 1929. The heaviest decline was in the largest single

NATIONAL INCOME PRODUCED 1929-1938[15]
(000,000 omitted)

Year	Income Produced	Year	Income Produced
1929	$81,128	1934	$50,052
1930	68,302	1935	55,186
1931	53,822	1936	63,466
1932	40,114	1937	69,817

revenue producer, namely, corporation income. Corporate and entrepreneurial savings, taking American industry as a whole, were a negative quantity until about 1934; this signifies a decline in ability to pay taxes. In fact, revenue from income and profit taxes declined from $2,330,000,000 in 1929 to $746,200,000 in 1933, customs duties declined from $602,200,000 at the first date to $250,700,000 at the second

Expenditures. However bad the times, governments find it difficult, if not impossible, to contract outlays to meet conditions of shrinking revenue The federal government encountered a substantial deficit in the last years of the Hoover administration, beginning with 1931 In fact, while ordinary income was on the decline, ordinary expenditures were higher by more than $1,600,000,000 in 1932 than in 1929. After a period of unbroken surpluses, running back to the close of the war years, the federal government incurred its first deficit.

This matter was made an issue in the campaign of 1932 Democratic speakers denounced the Republican administration for failing to keep governmental costs within income. They charged that the administration had been wasteful, extravagant, and that the people had been too heavily burdened with taxes The Democratic platform pledged the party to an "immediate reduction of governmental expenditures" This was to be accomplished by abolishing "useless commissions and offices," by consolidating departments and bureaus, and by eliminating extravagance. At that time, it was thought that no less than twenty-five per cent could be saved This signifies that at that time the demand was for economy

[15] *Statistical Abstract of the United States, 1938*, p 203

As a matter of fact, no important curtailment of expense can be made by the cutting of departmental appropriations The ordinary running expenses (*i e* , departmental) are now, and have been for many years, a relatively small percentage of the total cost of government. In normal times, the most costly departments are war and navy, but no material economies can be made here without sacrificing national defense The appropriations to the Post Office Department are a large figure, but they cover the cost of a nation-wide service, and, for the most part, are offset by income from that service In 1937, the expenditures charged to the State Department were $17,600,000; to the Department of Justice, $38,600,000; to the Interior Department, $92,100,000; to the Department of Commerce, $36,100,000; to the Department of Labor, $15,800,000

Recovery and Relief Expenditures. In the itemization of outlay, the federal government used the words "emergency," and "relief" It is impossible to draw a clear line of demarcation between these concepts. Much of the "relief" expenditure was "for emergency," and practically all these groups embodied the purpose of "recovery" As compared with budgets before 1933 most of the items under these titles were new They represented new lines of expenditure, new items of cost, and, in some instances, new theories with respect to the relation of government to business and social life How many of them will remain fixed expenditures in future budgets remains to be seen At any rate, once a new function has been undertaken by government, whether under the caption of "emergency" or "relief," that function tends to be perpetuated

In the five years ended in 1937, the total expenditure earmarked for "recovery and relief" was $15,073,000,000 Some of the outlays are recoverable in whole or in part; as such they are only a transient addition to the national cost, and eventually to national debt In the class of recoverables are loans of the Reconstruction Finance Corporation, loans to railroads and loans to states and municipalities, among others; again, some enumerated expenditures may be regarded as an investment from the fact that they will continue to render a service without future cost to the government (when they are completed) except for upkeep, maintenance and repairs. The various power projects are in this class At any rate, from the classifications given in the tables, it is clear

enough that federal bookkeeping has become a complicated matter and even now it is difficult to know where the country stands with respect to national debt. Add to this the fact that the federal government is the guarantor of the obligations of many of the corporations which it has created and the country is presented with an entanglement of finance which renders clear accounting impossible.

The total of "general and emergency expenditures" as an annual average for the five years ended in 1937 amounted to approximately $7,300,000,000. Large sums were included under such captions as agricultural aid, relief, public works, aid to homeowners, Export-Import Bank, Tennessee Valley Authority Practically all these items are new in the federal budget since 1932. Such expenditures were mainly the cause for the great outlays of the national government beginning about 1933.

Receipts, Expenditures and Deficits. After eleven years of continuous surpluses, deficits began to appear in the budgets in 1931. On the surface this was due to the failure of productive enterprises to produce necessary revenue, and to the stepping up of expenditures, notably after 1930. Underlying the lag in revenues were the many conditions which have affected business; but with these this textbook is not now concerned

Financing the Debt. A notable feature of the revenue system after 1930 was the failure of the main old-line sources to contribute material additions to the new financial needs. Income and profit taxes, which produced $746,200,000 in 1933, yielded $2,634,600,000 in 1938, but this latter amount was only $220,000,000 in excess of the return in 1930 Customs duties contributed less in 1938 than in 1930.

Thus the additions to the total ordinary income were mainly the contribution of older taxes which have been revived, or of new imposts. With the repeal of the Eighteenth Amendment, liquor taxes again became important revenue producers The income from fermented malt liquors had been practically nothing from 1920 to 1933, and only insignificant revenue was obtained from spirits and wines during most of that period. But together, in 1938, these taxes yielded $567,900,000. Various sales taxes levied under the Acts of 1932 and 1934 produced $416,700,000 in 1938; the reimposed corporation capital stock tax yielded

$139,300,000, and the new payroll taxes contributed $742,600,000 to the total. From the reimposed transportation and communication taxes were received $36,400,000, from coconut oils processed, $27,400,000, and from levies under the Sugar Act of 1937, $30,500,000.

Whether the federal tax system under conditions during and since World War I is reaching its limit of revenue productivity remains to be seen. This issue involves the question of incidence and pressure of taxes which will be discussed presently. But in this connection it is worthy of remark that state and local governments are also imposing taxes, and their levies, like those of the federal government, have advanced since the troublous times began in 1929 Because of the imposts of conflicting tax authorities, many important sources are now subject to double and, in some instances, to multiple levies. These exert pressure not only on productive industries, but eventually on final consumers. It is also worth observing that, notably in 1938 and 1939, the resistance to taxes increased — a matter which all grades of government began to take into account in 1939

With respect to loan policy, an initial observation is necessary Paradoxical as it may seem, the interest on the federal debt was a smaller amount in 1938 ($926, 281,000) than in 1923 ($1,055,924,000), although the interest bearing debt in 1938 was greater by $14, 571,000,000 than in 1923. The fact that a country with the largest debt in its history, with that debt still increasing, was able to borrow at continually declining interest rates — in fact, able to secure short-time loans at less than one per cent (0 738 in certain treasury bills of 1938) — was a spectacle that no country had ever before witnessed

A number of factors combined to produce this condition For one thing, the failure of business, after the slight revival which began about 1933, to strike into a real stride of recovery, which would require the large use of new funds, largely removed business borrowing from the arena of finance. In fact, while many large corporations took advantage of the low interest rates to refund old obligations they were particularly sparing in committing themselves for new issues. Possibly one factor in this situation was the fact that some large corporations were able to finance enlargements and extensions from their own resources. Be that as it may, new corporate financing declined to between one-third

and one-fourth of the level of the decade 1920 to 1930. Thus the Treasury had the field largely to itself.

In addition, the federal government made more extensive use of the banks in its borrowing operations than at any previous period in its history. This is to say that, instead of bonds being sold to the general public, as was the practice in times past, they were largely lodged in the banks which became the largest investors in this type of securities In 1936, the national banks held some $7,300,000,000 of United States securities (direct obligations); in addition, their portfolios contained $1,385,000,000 of obligations fully guaranteed by the United States This condition tied the fate of the banks to that of the credit of the federal government — but that is another matter The large investment of the banks in this type of securities was in turn related to changes which took place in the banking business, notably the decline in commercial loans. Thus, investment in government securities became, for the banks, at least, one port of haven in the storm.

With such conditions prevailing, the Treasury was favored by advantages which never before existed in the history of the United States It was the part of wisdom to use them to the fullest extent. Thus the policy was to refund old debts, as far as possible, at lower rates of interest, and to make full use of short-time borrowing, which cost very low rates In short, with the continued prevalence of extremely low borrowing costs, the Treasury saw fit to keep control over a large part of the debt, possibly with the expectation, later on, of funding the larger part of the controllable obligations at low rates

The debt management of the Secretary of the Treasury was and is a continuous process, but a few examples may be taken. The significance of these illustrations was the management of the debt at continually lower interest rates.

The following is a brief summary of the refunding operations to June 30 of 1935:

Fourth 4¼s outstanding October 12, 1933	$6,268,094,150
Exchanged for:	
4¼ — 3¼ per cent Treasury bonds of 1943-1945	$ 900,716,550
3¼ per cent Treasury bonds of 1944-1946	1,284,392,300
2⅞ per cent Treasury bonds of 1955-1960	1,558,022,650
2½ per cent Treasury bonds, series D 1928	596,416,100
Total Exchange	4,339,547,600

Total exchange	4,339,547,600
Redeemed for cash	593,578,950
Total retired to June 30, 1935	4,933,126,550
Balance outstanding June 30, 1935	
First, second, and third — called (payable on presentation)	88,736,850
Fourth — called for redemption on October 15, 1935	1,246,230,760
Total outstanding	$1,334,967,600

The following is a little more extensive illustration of the quarterly financing during the fiscal year 1938:[16]

QUARTERLY DATE			AMOUNT
Sept 15, 1937	$1\frac{1}{4}$ per cent Treasury notes, series E-1938, due Dec 15, 1938 In exchange for $3\frac{1}{4}$ per cent Treasury notes of series A-1937, maturing Sept 15, 1937		$ 433,460,900
	2 per cent Treasury notes, series B-1942; in exchange for $3\frac{1}{4}$ per cent Treasury notes of series A-1927, maturing Sept 15, 1937		342,143,300
Dec 15, 1937	$2\frac{1}{2}$ per cent Treasury bonds of 1945 In exchange for $2\frac{5}{8}$ per cent Treasury notes of series A-1938, maturing Feb 1, 1938	$247,330,300	
	For cash	293,513,250	
			540,843,550
	$1\frac{1}{4}$ per cent Treasury notes, series C-1942, due December 15, 1942 In exchange for $2\frac{5}{8}$ per cent Treasury notes of series A-1938, maturing Feb 1, 1938	13,339,500	
	For cash	219,035,700	
			232,375,200

[16] *Annual Report o fthe Secretary of the Treasury June 30, 1935*, p 20

March 15, 1938	$2\frac{1}{2}$ per cent Treasury bonds of 1948, due Sept 15, 1948· In exchange for 3 per cent Treasury notes of series C-1938, maturing March 15, 1938		450,978,400
June 15, 1938	$2\frac{3}{4}$ per cent Treasury bonds of 1958-63, due June 15, 1958-63. In exchange for $2\frac{7}{8}$ per cent Treasury notes of series B-1938, maturing June 15, 1938	571,736,200	
	In exchange for $2\frac{1}{2}$ per cent Treasury notes of series D-1938, maturing Sept 15, 1938	347,044,400	
			918,780,600
	$1\frac{1}{8}$ per cent Treasury notes, series A-1943, due June 15, 1943· In exchange for $2\frac{7}{8}$ per cent Treasury notes of series B-1938	36,142,600	
	In exchange for $2\frac{1}{2}$ per cent Treasury notes of series D-1938, maturing Sept 15, 1938	231,663,000	
			267,775,600
			$3,186,357,550

Composition of the Federal Debt. As might be inferred from what has just been said, the debt of the United States in 1940 existed in various forms and in various maturities. The bond maturities were rather evenly distributed from 1943 to 1956. The amounts, however, were of quite different magnitudes — from a little less than a billion to something short of three billion, and the maturities after 1945 followed each other in rather rapid succession. Even in the absence of untoward events this condition would supply active times for future secretaries. Whether future refunding can be handled at *current* levels of interest rates remains to be seen.

Pressure and Incidence of New Deal Taxes. In various places throughout this text, the incidence of specific kinds of taxes has been and will be discussed. It is not necessary at this time to add to this discussion except to say that the great bulk of the New Deal tax program added much more to the indirect taxes than to the direct. After 1933, income tax rates, both individual and corporate, increased. This was true, also of estate taxes

But, on the whole, those additional direct levies contributed relatively small amounts to the growing demand for larger government income.

Because of the enormous increase in the cost of government it was necessary not only to tap new sources, but to augment the levies on the older groups. Thus, large additions were made to the indirect sources. This was the case with the revised taxes on liquors and on tobacco, with many of the manufacturers' excises, and with miscellaneous taxes

Some new levies, whether by name or otherwise, were, to all intents and purposes, sales taxes. For the most part, they were paid by the persons who bought the goods or services. In short, the incidence was on the buyers of such goods; it was not shifted This was the case with the so-called nuisance taxes, and with levies on safe deposit boxes and club dues, to mention only a few of this type of imposts.

As has been already stated, there is but one kind of incidence, namely, the ultimate incidence, which emerges only when the tax finally settles, or comes to rest, on the person who bears it. This shifting is sometimes a complicated matter, as has been or will be discussed in this text; but through whatever channels it moves, it reaches final lodgment in the selling price of goods or services. Taxes which produce this result are truly invisible. The final consumer cannot trace their movement, he does not know their magnitude, he cannot calculate their total effect on his annual tax bill.

To the final purchaser, the incidence appears to be only one tax — that incorporated in his purchase price. But long before the commodity (or service) reaches him it has been the object of various imposts — various taxes on producers of raw materials, on communication industries, on manufacturers of partly and completely fabricated goods, and on distributors Thus the shifting involves a collection of taxes — the number of times depending on the number of layers of industry through which the goods have passed, and the number of shiftable taxes imposed on each layer. This is what producers mean when they say that in the loaf of bread are incorporated some fifty taxes, and in the automobile perhaps twice that number. In years of rapidly advancing tax rates, these matters are important to consumers They mean additional levies on all purchased goods.

What percentage of his total annual income an individual purchaser will pay in concealed taxes depends partly on the list of goods he buys; and on the income range in which he finds himself. Thus, estimates of the consumers' burden must be taken as more or less accurate guesses But that there is a large shift no one can deny, because every industry is subject to a number of levies; these are treated as costs, and are passed on more or less successfully, at least if the producer stays in business In a report of the National Industrial Conference Board in 1934 this statement appears· "From 1923 to 1929 there were no important changes in the ratio of tax collections to national income In this period, taxes were equivalent to about one-ninth of the national income After 1929 there were sharp increases in the ratio For 1932 the ratio was 20.7 per cent, the highest on record "[17] This, of course, applied to all grades of government In 1938, according to the same authority, taxes absorbed 23 6 per cent of the national income. Since the largest portion of taxes was indirect, this signified that the final consumer was the main payer.

The pressure of taxes, as contrasted with incidence, may take a number of forms Producers who find difficulty in meeting tax bills may deteriorate their products (goods on the market may seem cheaper, but may be of poorer than former quality), the pressure may force marginal producers (those who cannot make them sufficient economies to pay the added taxes, or who cannot shift) from business, the pressure may discourage investment in business, or encourage the shift of investment from business purposes (so-called risk capital) to other types which largely escape taxes (tax exempt securities), the pressure may operate on the volume of employment, and upon job security, it may force industries to postpone, or abandon, necessary improvements or repairs, it may affect all the distributive shares — wages, interest, profits, and rent, it may retard industrial progress

Tax Exempt Securities. One means of escape for the investor (usually a person of large means) who wished to be relieved of some tax burden, or who did not care to risk his capital in business under existing tax arrangements, has been the purchase of tax-exempt securities. As a rule, such investments have not been

[17]*Cost of Government 1923–1934* (New York National Industrial Conference Board, Inc , 1934), p 35

entirely free from taxes. In almost all cases, they were made taxable for the purpose of inheritance or estate levies, and, in some cases, the income was taxable when its exceeded by a certain amount the normal tax exemption In any event, such types of investment were means of conserving capital when the investor had made up his mind that business was an uncertain venture.

For numerous reasons there became a growing demand for the complete removal of exemptions from government securities, whether federal or state and local This demand was prompted partly by considerations of ideals of justice in taxation. Many persons asserted that it was unfair to free the holders of such securities of the burden which rested upon other recipients of income Partly the demand arose from the increased need for revenue, with the huge investment in government securities, this source seemed to offer an opportunity to reap a large tax income Other considerations were sometimes injected into the issue, as, for example, the contention that such taxation would force capital "out of hiding" into business investments — an income, so it was claimed, which would bestow benefits on the community as a whole, and upon the working class in particular.

A condition which was sometimes overlooked in this discussion was that taxation of government securities would in all likelihood cause a redistribution of ownership of these securities. Business owners of government securities were moved by the desire to get the largest return on their investments For them it would be a question of one type of investment as against another, always with a view to the largest return, taking into account risk and other factors They would be quick to shift the holdings in their portfolios when there was an advantage in doing so Taxation would cause a decline from the present level in the value of government obligations

Accordingly, to meet these objections, Congress, early in 1940, made the income of all newly issued federal bonds fully taxable. The contentions that such taxation would interfere with government borrowing, or that it would cause a rise in the rate of interest on government bonds, has not materialized But this matter is discussed in greater detail in later parts of the text

Summary. Until 1914, when World War I was about to begin, the federal government had already gone through four periods of

debt accumulation (1812; 1848; 1861; 1898), each of which was the result of a major war. Each of these periods was soon followed by debt liquidation and payment, and in January, 1835, the country was entirely debt free. These facts have led to the general conclusion that the principal causes of debt accumulation of the federal government during some one hundred and forty years of its national existence were wars.

When World War I began, the federal government began a fifth cycle of debt accumulation followed by partial liquidation. In 1914, the federal debt was, in round figures, about $997,500,000 At the close of the war in 1919 it had reached the sum of about $26,000,000,000 — a record up to that time The question was raised — should taxes be reduced or should they be kept at their high war level and used to reduce the public debt? Following the usual American tradition, the later view of debt payment prevailed. But a succession of events not only stopped debt retirement but caused the debt to mount at a very rapid rate. First came the droughts and floods during the early part of the Hoover administration, followed by one of the worst depressions from 1929 to 1939 that the country had ever seen. Also, all the allies except Finland defaulted in payment of their war debts to the United States. All these events when put together caused the federal debt to rise at a very rapid rate to the unprecedented amount of about $40,000,000,000 in 1939.

Everywhere it was contended that the country could not bear such a staggering debt and the demand for its reduction was almost universal. But at that time there did not seem to be any way of reducing it Expenses of the ordinary functions of government could not be reduced; and they were very small in comparison to the total. Enormous government outlays for such services as aids to the unemployed, the railroads, insurance companies, banks and business in general were imperative. To aid in this rehabilitation program, the federal government organized many agencies, such as the RFC, NIRA, WPA, HOLC, AAA to mention only a few. These agencies received large appropriations from Congress, and were authorized to issue their own instruments of indebtedness, which were guaranteed both as to principal and interest by the federal government, to carry on their assigned functions These were and are budgeted under the general heading of federal debt as contingent liabilities of the United States Government.

During the period from 1914 to 1939, at least two very significant matters in regard to the federal debt should be noticed First, after a brief period of liquidation following World War I, the debt rose very rapidly for other reasons than because of war and internal improvement expenditures. The economic and social functions of government had come to be predominant. The second is that debt management became very important as a means of contending with conditions of deflation and inflation and of economic recovery. Pump priming, compensatory and acceleratory effects of deficit spending were being considered and tried.

During the same period, the federal debt became very complex. Many new forms of federal securities were issued. Due to the fact that so many government securities were issued through the Federal Reserve Banks, much in the way of inflation was added The Federal Reserve Banks were organized, in part, as a means of aiding the fiscal activities of the federal government, but this, like some of the other functions, did not prove to be as satisfactory as intended.

The fiscal operations during the emergency years of World War II and following, will be discussed in the next chapter.

TEXT QUESTIONS

1 Prior to 1933, what were the main causes of the national debt?

2 What are some of the provisions of the Revenue Act of 1916?

3 When was the first income tax under the Sixteenth Amendment imposed?

4. Discuss federal taxation during World War I

5 What were the various types of debt devices used by the federal government in World War I?

6. Discuss the policy of conscription of wealth.

7 What did the following men say about financing a war by taxes or by loans:

  a) Ricardo
  b) Professor E. R. A. Seligman

c) Adam Smith
d) Professor H C. Adams

8. What is meant by a country living upon its capital?
9. Explain the statement, "the aftermath of a war is sometimes as burdensome as the war itself".
10. What was the duty of the War Industries Board?
11. What were some complaints made by the debtor countries after World War I concerning their debts to the United States?
12. Why were there objections to the rapidity of payment of the national debt following World War I?
13. What was President Roosevelt's philosophy of the task of government?
14. What was the purpose of the Reconstruction Finance Corporation? Was it a part of the New Deal legislation?
15. In what way did the WPA differ from the PWA?
16. With what does the government revenue fluctuate?
17. How did the Democrats plan to reduce governmental expenditure in 1932?
18. What items of expenditure in 1937 were deemed to be recoverable?
19. What were the reasons for a deficit in the federal budget in 1931?
20. The repeal of the Eighteenth Amendment added what important item to the government revenue?
21. Explain the reasons for the interest on the federal debt being less in 1938 than in 1933 though the debt was actually greater
22. The majority of the New Deal taxes were of what type? Give some examples
23. Explain what is meant when it is said that the shifting of taxes involves a collection of taxes
24. State some arguments against taxing government securities

APPLICATION PROBLEMS

1. During World War I, the federal government made extensive loans to its allies Make a study of each of these loans. What was the technique by which each of these loans was made available? Consider the question of payment and final repudiation.

2. It was insisted that, granted the allies could pay their debts after World War I, the United States Government should not accept such payments The only way the debts could be paid would be (1) in gold, (2) in goods, and/or (3) in services, none of which should be accepted because we already had too much gold, and to receive goods and services would only further aggravate our depressed economic condition and further add to our unemployment problem. Do you agree?

3. It is claimed that when one government borrows from another the borrowing country can use the proceeds in one of two ways First, it can use the loan as an investment upon which a return may be had in the future for repayment Second, it may be used for immediate consumption and dissipation, such as in a war on the field of battle In this second case, the borrowing nation can only repay the loan by exporting part of its wealth thereby making itself poorer In terms of these statements, appraise the economic effects on England of the recent loan of $3,750,000,000. Was the situation any different in the case of the loan to Finland during World War I?

4. Suppose at a particular time a government were to adopt the policy of raising its funds for an emergency in the ratio of 75 per cent by borrowing and 25 per cent through taxation Later, it adopted the policy of 50-50 ratio Compare and contrast the economic conditions of these two policies. Would the methods of borrowing and kinds of taxation levied make any difference?

RESEARCH TOPICS

1. During the period of 1933 to 1939, the federal government engaged extensively in deficit financing by rapidly increasing its debt Are you prepared to accept or to reject the contention that the economic recovery during this period was the direct result of this fiscal policy? Can you produce concrete facts in support of your contention?

2. By referring to the federal budgets, make a comparative study of the federal debt structure and composition for the fiscal years ended, respectively, on June 30, 1914, June 30, 1920, and June 30, 1946. How do you account for the progression of complexity?

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CHAPTER 15

THE EMERGENCY FISCAL PROGRAM (1940 - 1949)[1]

By the latter part of 1939, the country was well on the way to economic recovery when government expenditures could have been reduced very rapidly and considerable headway could have been made toward debt retirement; but World War II was then imminent The federal government was compelled again to put its fiscal program on a war basis in the fourth quarter of that year New and higher taxes were proposed and levied for war preparedness, and there was a marked increase in federal expenditures for protection. For the sixth time in the national existence of the federal government its debt began a new cycle of increase and latter liquidation.

The last year of peace-time expenditures before World War II was the fiscal year ended June 30, 1929. The period from 1939 to 1947 covered the fiscal years of World War II emergency The fiscal years since 1947 include post war reconstruction and economic readjustment In previous chapters, facts and figures were almost entirely taken from the fiscal years of 1939 and earlier, because they represented as nearly normal conditions as could be found. The emergency years of the World War II period and since were reserved for special consideration in this chapter This chapter will deal especially with the economic and political conditions which determined the fiscal policies of the federal government during the emergency years of World War II and those of readjustment that have followed.

Economic Shifts Between Peace and War. When an economy, like that of the United States, shifts from a peace to a war basis, as it did after 1939, it assumes many new and changed characteristics. It is a transition that is fairly easily accomplished because prices, wages and incomes are increasing at a rapid rate Unemployment all but disappears, and a spirit of optimism generally prevails But such a transition is not without its handicaps and disadvantages. There is a vast shift and reallocation of capital

[1]For a detailed study of the federal expenditures and revenues during the fiscal year ended or ending June 30, 1948 and 1949, respectively, the student is referred to the the United States Budgets for these years

and labor from consumer production to highly specialized war production The volume of credit dollars and other forms of purchasing power increases enormously The supply of consumer goods does not nearly equal the demand. The whole economy seems to become distorted in many ways But when the national emergency passes and it becomes necessary for the economy to shift from a war back to a peace basis, as has been the case in this country since 1945, the change is accomplished with great difficulty, often with great hardship to certain economic groups, because again many new and different conditions may arise The fiscal condition of government cannot, therefore, be disassociated from such a change.

In general, during such post-war periods of readjustment, prices and incomes ultimately begin to fall from the high points they reached during the emergency. Unemployment appears and wages are reduced, thus precipitating strikes and labor trouble Much highly specialized capital used for war production must be either abandoned or converted to civilian production at great sacrifice Labor must shift to new jobs in production of consumer goods and services Many business concerns either liquidate, reorganize, or enter into combinations In other words, a peace economy is quite inadequate to sustain a great public emergency, such as a war, and, similarly, an economy organized to conduct a war is not adequate when peace returns

This swing in events during and after a war has held true of every such conflict in history Speaking of war-caused inflations and deflations, John Adams, second President of the United States, wrote "I am old enough to remember the war of 1745 and its end, the war of 1755 and its close, the war of 1775 and its termination, the war of 1812 and its pacification Every one of these wars has been followed by general distress embarrassments of commerce, destruction of manufactures, and a fall in the prices of produce and of lands"

But it does not follow that all these cyclical periods are identical. They are all different in many respects Therefore, the economic conditions that accompanied and followed the World War II cycle are not completely comparable with those of World War I; hence, this separate consideration.

Political and Economic Conditions at Start of War. On September 1, 1939, Germany invaded Poland Two days later, Great

Britain and France declared war. World War II, the prospect of which had long hung over the continent of Europe and the world, had begun

The impact of the catastrophe upon the American economy was immediate Memories of World War I, with its insatiable demand, shortages of supply, and inflation, caused immediate and widespread buying. General prices increased rapidly Basic commodities and strategic war materials rose about 25 per cent in price during the month of September, 1939 Employment in manufacturing establishments increased almost 10 per cent by the end of 1939 During the same period payrolls rose 16 per cent. The Federal Reserve Index of Industrial production, which stood at 106 per cent of the 1935-1939 average in August, rose to 125 per cent in December, 1939.

Shortly after that false start in 1939, production came to a sudden halt, and prices slumped War orders from England and France did not arrive Nine months after Germany invaded Poland, the general economic situation was not significantly different from what it had been at the outbreak of the war

This state of economic quiescence ended abruptly, however, with the German invasion of Denmark and Norway on April 9, 1940 A month later, on May 10, 1940, the German armies invaded the Low Countries Within thirty-eight days the French had been conquered and the British had been driven back across the Channel. The American people suddenly awoke to the realization of their peril, and the need of enormous public expenditures for war preparedness.

By July, 1940, Congress had, at the instigation of the President, authorized defense expenditures of over $12,000,000,000 Nine months later, those authorizations were increased to $35,000, 000,000, thereby providing for the most gigantic output of war materials of all time

These few political and economic events of 1939 and 1940 will serve as a background to the fiscal program of the federal government as the entire country was being converted from a peace-time to a war-time emergency economy and new systems of taxation, unparalleled expenditures and economic controls, and a rapid increase in the federal debt were being planned

War Economy and Economic Mobilization. Soon after the war started in Europe, it became just as necessary to mobilize

the economic resources of the country as it was the manpower At that time the United States possessed an inadequate and ill-equipped army. The navy was efficient and well trained, but inadequate. There were few airplanes, little in the way of military supplies or plants for the production of war material, and even fewer merchant marine facilities to make overseas deliveries The economic and military tasks ahead were enormous

President Roosevelt called for swift mobilization of the total national resources for defense. To guide the mobilization, he appointed in May, 1940, an Advisory Commission to the newly reconstituted Council of National Defense The tasks confronting this commission were formidable. For ten years the American economy had limped along, operating at a fraction of its productive capacity; at times under 75 per cent of its potential In the period from 1930 to 1939 the Federal Reserve Board Index of production averaged 87. By April 1940, this index stood at 112, from which point it rapidly mounted until the capitulation of Japan in the latter part of 1945 when it stood at about 260 per cent gross of 1936–1939 base period, including production for war and for individual consumption.

The expansion of production to the limit of the nation's capacity was the first task of the Defense Commission Millions of men and women whose skills had been neglected, or who had never been employed before, had to be trained in new jobs Production of raw materials, which had been geared to the requirements of a half-idle economy during the depression, had to be expanded. Industrial plants, long unused, had to be returned to operation Moreover, it was necessary to expand such facilities of production enormously to provide tools for the men being put to work

The second task of the Defense Commission was to mobilize the country's resources for the production of guns, ships, planes, and tanks. The country lacked the raw materials of war in the quantities required That lack called for a great expansion in the production of copper, steel, zinc and lead, and an even greater output of aluminum, magnesium, and chemicals The country needed steel for railway cars, heavy armor plate for tanks and fighting ships, arsenals, plane factories, shipyards, shell loading plants, and high octane gasoline refineries To fulfill these requirements, production had to start from the beginning in a great many instances.

A third task was to assure a steady flow of vitally needed raw materials from foreign sources and to accumulate as large stocks as possible. The federal government began a very active program of stock-piling such raw materials as natural rubber, tin, alloys, bauxite, and chemicals.

Finally, it was apparent that the war and the rearmament program would bring acute pressure to bear upon the price structure, which, if unchecked, would work severe hardships upon the people, and seriously impede the war program itself by unduly increasing governmental expenditures and taxes In many cases, the risks of financing plants and equipment to meet the extraordinary demands of war time were too great for private enterprise to assume and federal aid therefore had to be given Accordingly, three alternative arrangements were devised

The first arrangement involved the Emergency Plant Facilities Contract, which was drawn by the Price Stabilization Division Under its terms, firms having contracts with the Army and Navy financed the necessary plant expansion with their own funds, and were later to be reimbursed by the Treasury On October 9, 1940, Congress made those contracts "bankable," *i.e.*, acceptable as collateral on loans, and thus facilitated borrowing by government contractors from private banks, or from the Reconstruction Finance Corporation

Under a second arrangement, corporations were permitted to compute amortization at an annual rate of 20 per cent in calculating their tax liabilities, or retroactively at a greater rate if the emergency ended within a shorter period. Under a third method, new plants were constructed by the federal government through the Defense Plants Corporation, a subsidiary of the Reconstruction Finance Corporation, and leased to private firms for operation.

While the federal government provided much of the capital for plants engaged in war production, the chief source was still the private investor. Money was plentiful and profits were good, a condition which furnished the chief incentive to private investment in war industries

War Price Control. February, 1941, marked a turning point in the behavior of general wholesale and retail prices Although the prices of twenty-eight basic commodities and the general Bureau of Labor Statistics (BLS) wholesale index began to move upward in August, 1940, the acceleration did not become serious

until in February of the following year The danger of that general price rise became particularly clear with the signing of the Lend-Lease Act on March 11, 1941. Under the terms of that Act, the United States undertook to serve as the arsenal and supplier of all nations fighting the Axis, providing not only weapons but food in the utmost quantities possible, without regard to the terms or conditions of payment

In passing it should be remarked that the lend-lease system was devised to get around the difficulty of foreign debt repayment such as was experienced after the termination of World War I. It will be recalled that shortly after 1920 every foreign country, except Finland, defaulted in its debts to the United States, and since a similar situtation would most likely maintain after World War II, the lend-lease system seemed to be a good method of escape.

By a special executive order, President Roosevelt replaced the Price Stabilization Division with the Office of Price Administration and Civilian Supply (OPACS) That office was directed "to take all lawful steps necessary or appropriate in order to prevent price spiraling, rising cost of living, profiteering, and inflation ," and to supervise the supply of goods for civilian purposes The OPACS pushed the control of prices with vigor By August 1, 1941, about 12 5 per cent of the total wholesale value of manufactures, minerals and imports had been brought under informal control. In addition, 10 per cent was under formal control, so that nearly one quarter of the wholesale price structure was being regulated by mid-summer of 1941.

The single dominant factor in the changing economy was the volume of defense expenditures At the time the defense program was launched, monthly expenditures for war materials totaled $200,000,000 In April, 1941, ten months later, monthly expenditures had increased five times to a level of $1,000,000,000 Within the following eight months, they doubled, reaching in December the monthly rate of $2,000,000,000 It was that rapid expansion of defense outlays that was the dynamic element in the developing economic situation, and was the cause of the increasing pressure on prices

Every dollar disbursed by the federal government in its enormous expenditures became a payment of wages, salaries, interest, rents, profits, or cash farm income. Under the influence of govern-

ment spending, income payments increased at an accelerated rate. The farm income alone more than doubled during the war years. Consumer expenditures mounted rapidly. From an annual rate of $65,000,000,000 in May, 1940, they rose to an all-time high of $78,000,000,000 in August, 1941.

The rising tide of defense and consumer expenditures caused an increase in investment. That investment expenditure, added to government and consumer outlays, contributed to the increased demand for virtually all kinds of goods and services Prices rose, but not in proportion to increase of demand, because production was mounting at such a rapid rate From a level of 140 in January, 1941, as compared to the base period of 1936–1939, the index of industrial production rose to 168 in December, an increase of 20 per cent for the year. That enormous increase of output helped to keep the price problem within manageable proportions for a time

By the summer of 1941, however, the American defense economy was facing an inflation problem of war-time proportions, and it became necessary to strengthen the apparatus of price control with full and explicit statutory authority Accordingly, on July 30, 1941, President Roosevelt asked Congress for "legislation . to establish ceilings for prices and rents, to purchase materials and commodities when necessary, to assure price stability, and to deal more extensively with excesses in the field of installment credit "

The Emergency Price Control Act of 1942, creating the Office of Price Administration (OPA), was approved on January 30, 1942 The OPA promptly issued the general order which "froze" almost all prices on goods and services, at wholesale and retail, at their March, 1942, levels Modifications of prices in specific cases were later allowed.

Further rise in the general level of wholesale prices of controlled items was all but stopped, and the danger of a much dreaded war inflation was removed, at least for the time In May, 1946, for example, the Bureau of Labor Statistics Wholesale Index number (BLS) stood at 109 6 per cent of the 1926 level as the base year of 100 How much this control of price rises saved the federal government and the consuming public in unnecessary expenditures is impossible to say, but it was very great

It was evident that general or special prices could be controlled, but what about costs of production? The latter seemed to mount just the same. In fact, their rise seemed to be so inevitable that relief of some kind had to be provided for the producer, either by permission to advance prices by piercing the ceiling, or by a subsidy In some cases, it was not appropriate to permit price increases, therefore, rather than allow the producer to be forced out of business, the industry was often subsidized out of Treasury funds to the extent of the additional costs. From time to time, Congress appropriated large sums of money for this purpose, which should be regarded as part of the over-all costs of the war emergency The farmer was especially benefitted by these subsidy payments

The Nation at War. The crisis precipitated by the attack on Pearl Harbor marked a significant change in the nation's war program On January 6, 1942, President Roosevelt sent to Congress his message on the state of the Union, in which he outlined a "blueprint for victory." He asked for a budget to provide 60,000 planes, 45,000 tanks, 20,000 aircraft guns, and 8,000,000 tons of shipping for 1942, with increases for 1943 His budget provided for an expenditure of $53,000,000,000 for war. "These estimates," he said, "reflect our determination to devote at least one-half of our national production to the war effort."

On April 27, 1942, President Roosevelt sent to Congress his anti-inflation message, which contained a seven-point program designed to prevent spiraling cost of living, and laid down certain principles of national economic policy for the duration of the war Briefly, the program asked for

1 Heavy taxation with the object of keeping profits at a low, reasonable level,
2. An over-all ceiling on prices paid by manufacturers, wholesalers, retailers, and consumers, and on rents in areas affected by war industries,
3. Stabilization of wages,
4 Stabilization of farm prices and restoration of the parity in place of the 110 per cent of parity formula;
5. An expanded War Savings program;
6. Rationing of essential and scarce commodities, and
7 Discouragement of credit and installment buying and encouragement of debt repayment

Lend-Lease Expenditures. The Lend-Lease Act, "An Act to Promote the Defense of the United States," became a law on

March 11, 1941 It authorized the sale, transfer of title, lease, loan, or other disposal of any article of defense or information to any country whose support the President deemed vital to the safety of the United States. The terms and conditions upon which aid was to be received were to be those which the President deemed satisfactory. The benefit to the United States was to be payment or repayment in kind or property, or any other acceptable direct or indirect benefit

Until August 1, 1943, forty-seven nations had been declared eligible for lend-lease aid from the United States by the President Fourteen of those nations did not sign lend-lease agreements, and therefore did not receive such aid, although they were on the eligible list Canada, for example, received no lend-lease aid from the United States This nation paid cash for all supplies obtained in this country Canada made over a billion dollars' worth of supplies available without payment to the United Kingdom, and later supplied another billion dollars of aid to England, Russia, China and other United Nations on a mutual aid basis similar to our lend-lease program

From the passage of the Lend-Lease Act on March 11, 1941, to August 1, 1943, lend-lease aid — goods transferred and services rendered to all nations — totaled $13,973,339,000. That sum represented about 12 per cent of this country's total war costs up to that date Of this total amount, munitions constituted about 50 per cent, industrial products about 21 per cent, and food and other agricultural products about 14 per cent. The remaining 15 per cent consisted of shipping, ship repairs, and other services, and the construction of plant facilities in the United States for the production of lend-lease goods

In order to manufacture the munitions and supplies which were sent to the Allies, it was necessary to expand production facilities in the United States, and an important part of the expansion was financed with lend-lease appropriations As of June 30, 1943, $869,500,000 of lend-lease funds were allotted for that purpose Since the war, these production facilities have become a permanent part of the industrial capital, and have been put to use for the manufacture of consumers' goods and services.

Total lend-lease shipments to the most important countries from March 11, 1941, to October 1, 1945, are listed on page 384[2]

[2] *Twenty-First Report to Congress on Lend-Lease Operations, for the Period Ended September 30, 1945*, (Washington, D C U. S Government Printing Office), p. 14

LEND-LEASE SHIPMENTS MARCH 11, 1941 TO OCT. 1, 1945

British Empire	$30,269,210,000
U.S S. R	10,801,131,000
France	1,406,600,000
China	631,509,000
American Republicans	421,467,000
Netherlands	162,157,000
Greece	75,416,000
Belgium	52,443,000
Norway	34,640,000
Turkey	28,063,000
Yugoslavia	25,885,000
Other Countries	43,284,000
Aid not charged to foreign governments	2,088,249,000
Total Lend-Lease Aid	$46,040,054,000

These shipments comprised ordnance and ammunition, aircraft and parts, tanks and parts, motor vehicles and parts, water craft, industrial items and foodstuffs

The greater part of supplies to the Soviets was ordnance supplies More than $1,000,000,000 of shipping services and ship repairs were performed for the British under lend-lease Shortly after Pearl Harbor, England and the United States agreed that the latter would construct most of the merchant ships needed by the United Nations As a result, the United States undertook the greatest shipbuilding program ever attempted by any nation. The size of the fleet increased greatly after December, 1941, In 1942, the United States shipyards turned out 746 merchant ships; in the first seven months of 1943, 1,023.

The United States was the beneficiary of reverse lend-lease from many of the United Nations For example, the United Kingdom up to June 30, 1943, extended such reverse lend-lease aids to the United States as goods, services and information, as well as raw materials, commodities and foodstuffs heretofore obtained only in exchange for exports, to the total of about $1,171,000,000 The Australian government officially estimated the expenditures for reverse lend-lease aid to the United States at £A60,792,000,[3] as of June 30, 1943 New Zealand supplied its share of reverse lend-lease aid to the total amount of $51,000,000

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[3] £A indicates Australian pound sterling

During the third quarter of 1945, hostilities came to a close with the capitulation of Japan. In recognition of the fact that the Lend-Lease Act was primarily an instrumentality of the prosecution of the war, steps were taken by Executive Order to terminate it and to cease expenditure of its funds.

The post-war economy of England, especially its foreign trade, was, and is still, not in a satisfactory condition. During World War II, the British had literally "shot away" their raw materials and capital, and when peace came they were in depressed economic conditions To give the British a little aid, and also to bolster the markets of the United States with them, Congress authorized a loan, as follows

> The Treasury was authorized to advance Britain up to $3,750,000,000 during the next five years, with no interest during this time. Interest at 2 per cent was not to begin until in 1951.
>
> The British could obtain waiver of interest payments whenever their exports failed to exceed by 60 per cent those of the period immediately preceding the war

Canada also made a billion-dollar loan available to the British on substantially the same conditions.

This loan was made available to England by means of establishing a credit against which an English purchasing agent could write his checks No money was actually turned over to the English All they wanted was goods and services, such as foods, clothing, machinery, raw materials, vitamins, and numerous other items. These goods and services were bought in the United States by the British purchasing agent on the credit of the federal government and shipped to England for consumption It should be noticed that in some ways this was an unproductive loan in that it would not return itself with principal and interest. It was largely an expenditure for immediate consumption purposes When it is paid in the future it will be necessary for England to export part of its wealth in some form to this country In recent years, Finland and Belgium have borrowed from the United States, but chiefly as an investment to develop their own natural resources which, in the end, should create its own means of repayment

Early War Tax Program. The enormous war expenditures demanded great volumes of government purchasing power Accordingly, the federal government formulated a formidable

fiscal program of taxes at a very early stage of the war in 1940. That tax program was designed to accomplish two main purposes: first, to provide additional revenue for meeting the increasing government expenditures, and, second, to head off the onrush of inflation. Even at the end of 1941, the federal government was spending at the unprecedented rate of $2,500,000,000 monthly In August, 1943, the expenditures were more than $7,000,000,000 On December 7, 1941, the national debt was about $55,000,000,000. By June 30, 1943, it had risen to $136,700,000,000. This enormous increase in government spending was creating income and purchasing power in the hands of consumers at a very rapid rate. According to a report by the United States Treasury Department, at the close of 1943, the national income was approximately $130,000,000,000 About half of the industrial productive capacity was devoted to war purposes, and the other half produced about $90,000,000,000 of goods and services for civilian use, which left about $40,000,000,000 of excess purchasing power. Comparing 1943 with the pre-war period of 1936–1939, expenditures in eating and drinking places increased 143 per cent; in clothing stores, 102 per cent; and in jewelry stores, 218 per cent, to mention just a few items

Nor do these facts present the entire picture. According to a report by the Secretary of the Treasury from the beginning of 1940 to June 30, 1943, a period of three and one-half years, the American people saved, in round figures, $55,000,000,000. Of this total, $24,000,000,000 was in the form of currency and checking accounts and $21,000,000,000 was in redeemable or marketable bonds.

As previously stated, the federal government early adopted a policy of avoiding in so far as possible borrowing through commercial banks because of the tendency to inflation This was the direct opposite of the policy adopted during World War I when the Federal Reserve System was organized in part for this purpose. The general theory is usually stated thus Bank purchases of government securities lead directly to an increase in cash assets held by the public depositors When depositors lend their deposits to the government by buying bonds, no new purchasing power is thus created; such funds are merely transferred from private to Treasury accounts on the books of the bank But when banks buy or invest in government securities out of their own funds, or out of the funds which depositors have on deposit

with them, they cannot charge these purchases against their depositors' accounts; the result is that new purchasing power is created. In payment for government bonds, the banks usually set up "war loan accounts," payable to the United States Treasury. As the Treasury draws on these accounts to finance war expenditures, the new funds flow into the pocketbooks and bank accounts of individuals and business firms During the fiscal year of 1943, banks increased their holdings of federal securities by about $30,000,000,000 This was the main factor in expanding by about 36 per cent the total of coin, paper money, and checking deposits held by the public It is for this reason that the federal government did not favor a policy of financing the war by borrowing through the commercial banks, but insisted on dealing directly with the individual or corporate lenders. It is also another reason why so many federal securities have been made non-negotiable and non-assignable

The banks in the United States have recently become heavy investors in federal securities As of March 27, 1946, the twelve Federal Reserve banks held a total of $22,974,322,000 of United States Government securities [4] As of December 31, 1945, all private banks in the United States held at total of $101,300,000,000 of Federal securities [5]

The 1944 Tax Program. On October 4, 1943, the Secretary of the Treasury presented to the Ways and Means Committee of the House of Representatives his recommendations for new tax legislation The criteria for appraisal of the various sources of income were

1 The capacity of the tax to raise money, and its effect on the inflation problem;
2. The extent to which it might interfere with war production,
3 The degree of hardship it would place upon the people with fixed incomes and with fixed obligations, and upon people with inadequate incomes, and
4 Its practicability and cost from the standpoint of its administration.

That program is of general interest because of the fundamental principles of fiscal policy involved One of the chief considerations in developing that tax program was the drawing off of "excess spending money." For example, it was then estimated by the

[4] *Federal Reserve Bulletin* (Washington, D C Board of Governors of the Federal Reserve System), April, 1946, p 393

[5] Ibid , p. 402

United States Treasury that income payments to individuals would amount to about $152,000,000,000 in the fiscal year ended in 1945 The available amount of goods and services to the consumer could absorb only about $89,000,000,000 of that sum, leaving $63,000,000,000 gross surplus above consumption. Under existing schedules, personal taxes would further reduce the amount by $21,000,000,000, leaving a net of $42,000,000,000 Of the $42,000,000,000, about $17,000,000,000 would be absorbed chiefly by borrowing, leaving some $25,000,000,000 of "excess spending money" in the pockets of the consuming public Taxes were imposed to impound that excess spending power. It was contended that by taking part of the excess spendable income, the strain on the defense line of rationing and price control would be reduced; and if this were accomplished the expense of government could be reduced at the same time

The total amount of additional taxes recommended by the Treasury was $10,500,000,000 (originally, $12,500,000,000) for a full year of operation to June 30, 1945 Of the total, $6,500,000,000 consisted of additional individual income taxes, some part of which was to be refundable after the war

It was also reported by the Treasury Department in 1945 that about four-fifths of all the income of the country was going to people earning less than $5,000 a year Accordingly, the Treasury program proposed higher taxes on this group, some of whom entirely escaped under the existing set of schedules, while others paid very little Of the increased income taxes proposed by the Treasury, $1,600,000,000 were on income groups under $3,000 of net income, $3,500,000,000 were on groups under $5,000 net income

Actually, the Ways and Means Committee of the House greatly reduced the amount of taxes as recommended by the Treasury to be based on corporate and individual income and on almost all excises. Estate and gift taxes were regarded as high enough and, therefore, were not increased

The heavier taxes on corporations proposed by the Treasury were based on increased corporate income Corporate profits for the calendar year 1943 were $22,600,000,000, while for 1944, they were $24,500,000,000 In 1943, corporate tax liabilities were $13,500,000,000, which, with a further increase in corporate incomes, left a wide margin upon which further taxes could be imposed. Tariff schedules were not appreciably increased because

foreign trade upon which duties could be collected was nominal, and hence not much income could be expected from that source

Federal War Budgets. The trend of federal expenditures and income for the fiscal years ended June 30, 1943, 1944, and 1945, is shown in the following table.

FEDERAL EXPENDITURES AND INCOME FOR 1943, 1944, and 1945 (In millions)

	1943 JULY 1, 1942 to JUNE 30, 1943	1944 JULY 1, 1943 JUNE 30, 1944	1945 JULY 1, 1944 JUNE 30, 1945
OUTGO:			
For war*	$ 75,085	$ 92,000	$ 90,000
For excess profits refund bonds, interest on public debt, etc.		4	1,000
Excess of receipts from government corporations (deduct)	1,809	177	32
Total spending	79,346	99,274	99,722
INCOME	22,282	41,186	40,769
DEFICIT·	57,064	58,088	58,953
Other financing needs.			
Increase in cash accounts	6,516	46	101
Retirement of government corporation debt	694	2,770	1,346
Total direct debt increase	64,274	60,904	60,400
GROSS PUBLIC DEBT	$136,969	$197,600	$258,000

*Includes war expenditures of the Reconstruction Finance Corporation

Post-War Budgets.[6] The 1947 budget was different in that it was an attempt for the first time on the part of the Chief Executive to submit a single comprehensive estimate of all federal expenditures for special action by Congress It included estimates not only of expenditures and receipts for which legislative

[6] *The Budget of the United States Government for the Fiscal Year Ending June 30, 1947*, p lxxviii

authority already existed, but also for which authorization was recommended

The Government Corporation Control Act of 1945 made it necessary for the President to submit to Congress the budget programs of the wholly owned government corporations, thus greatly enlarging the executive budget ordinarily presented at the beginning of each year. Under the Control Act of 1945 provision was made for corporations to be used to carry out a broad range of government programs largely of a revenue producing type In general, those corporations were to make and guarantee loans of private institutions to businessmen, farmers, home owners, foreign governments, to insure private individuals against loss from crop failures, price declines, war damage; to construct vital war plants; to build navigation and flood control projects and electric power plants, to operate railroads, steamship service, barge lines and terminals, to purchase stock piles and sell commodities in domestic and foreign markets; and to administer subsidy programs. The federal government invested over $5,000,000,000 in these corporations and they controlled over $16,000,000,000 in tangible assets [7]

For the first time since the fiscal year of 1930, the 1947 budget did not require any increase in the national debt In fact, the national debt was reduced substantially during 1947.

Without going into detail, a brief statement of the expenditures for the emergency years may be given as follows:[8]

FISCAL YEAR	TOTAL BUDGET EXPENDITURES
1949	$ 41,900,000,000
1947	35,860,000,000
1946	67,229,000,000
1945	100,031,000,000
1940	9,252,000,000

The fiscal year of 1945 was the high year in expenditures, and the 1946 fiscal year was the turning point in the emergency expenditure program of the federal government The federal budgets for the fiscal years 1948 and 1949 show substantial increases, especially the latter, largely because of the international situation

In formulating the 1947 fiscal program of the federal government, the administration had to choose between two divergent economic policies: should all legislative controls over prices, credit, wages, volume of money in circulation, and rationing of

[7] *Ibid*, p xlviii
[8] *Ibid*, p xlviii.

consumer products be continued; or, should those legal controls be removed or greatly lessened, thereby giving full opportunity to private enterprise operated in a competitive market to produce such a volume of consumer goods that the law of supply and demand would keep price inflation within bounds.

In general, the consumer favored retaining the controls, especially over prices and rents To do so would have meant a large federal expenditure for those purposes, because the OPA was an enormously expensive agency On the other hand, business interests demanded that all shackles be removed from private production. It was contended that the volume of consumer goods thrown on the market would prevent substantial price rises. It was further claimed that this latter policy would sustain the national income at a high level and would greatly reduce the federal expenditures for the fiscal years ahead and accelerate the liquidation of the public debt It was a clear recognition of the fact that the economy of the country and the fiscal policy of the government could not be separated.

In the latter part of 1945 and early part of 1946, the President had been gradually removing or modifying the war-time economic controls. Wage ceilings were abolished, and those on certain commodities and services were modified Early in 1946, it became evident that all economic controls were definitely to be repealed by Congress, and that the OPA was not to be extended after the end of that fiscal year. The President had asked Congress for its extension and also for a renewal of Regulation W which pertained to credit controls and installment buying; but the act passed by Congress was unsatisfactory to the President and was vetoed by him early in 1946. Accordingly, on June 30, 1946, the OPA passed out of existence The effect upon several wholesale and retail prices was immediate The BLS Wholesale Index number, standing at 112 5 on June 30, 1946, of the 1926 base level of 100, began to rise very rapidly. It climbed almost precipitously until on August 2, 1948 it was at 169.2, or about 1 5 per cent above the all-time high of May, 1920. Regulation W was further modified by Congress so that all controls over credit and installment selling were completely removed, and all credit controls cancelled. Inflation was thereby allowed to go its full length, as is shown by the rapid rise of the BLS Wholesale Index number

General prices continued to rise through 1947 and 1948 A special session of Congress was called by the President on July 26,

1948, to give attention to the rising cost of living In a special message to Congress, the President in his ten-point program asked for price and credit controls The principal legislation by Congress was a re-enactment of Regulation W which required an average of about 33⅓ per cent down payment on such articles as automobiles, jewelry, refrigerators, and cameras when bought on the installment plan, and the balance to be paid within 15 months, later changed to 21 months.

Analysis of the Public Debt. The annual status of the federal debt has been illustrated graphically in another chapter.[9] When the fiscal program of the federal government was put on a war basis in the latter part of 1939 and early in 1940, the debt of a little in excess of forty billions of dollars was partly an accumulation from World War I, and partly a result of expenditures during the drouth and flood years, but largely the result of the aids rendered during the depression from 1933 to 1939.

As a result of World War II, the federal debt began its expected ascent and became very complex. Its complete status on June 30, 1947 is shown in the following table:[10]

ANALYSIS OF THE PUBLIC DEBT

ISSUES	OUTSTANDING PUBLIC DEBT AS IN TABLE
Interest-bearing debt	
Public issues:	
Marketable obligations:	
Prewar bonds (World War I), including postal savings bonds	$ 165,696,460.00
Treasury bonds	119,322,882,950 00
Treasury notes: Regular series	8,142,235,000.00
Certificates of indebtedness	25,295,970,000 00
Treasury bills	15,774,960,000 00
Nonmarketable obligations:	
Armed forces leave bonds	1,792,972,450 00
Depositary bonds	325,426,000.00
United States Savings bonds	51,366,729,479,10
Treasury savings notes	5,560,079,700 00
Total, public issues	$227,746,952,039.10

[9]See page 288

[10]*The Budget of the United States Government for the Fiscal Year Ending June 30, 1949*, page 1307.

ANALYSIS OF THE PUBLIC DEBT

Special issues:	
Treasury notes.	
Alaska Railroad retirement fund	2,680,000 00
Canal Zone, Postal Savings System	3,500,000 00
Canal Zone retirement fund	12,257,000.00
Civil service retirement fund	2,485,238,000.00
Federal Deposit Insurance Corporation	408,000,000.00
Federal old-age and survivors insurance trust fund	1,109,000,000.00
Federal Savings and Loan Insurance Corporation	62,212,000.00
Foreign Service retirement fund	9,638,000 00
Mutual mortgage insurance fund	14,500,000.00
National service life insurance fund	6,473,685,000 00
Postal Savings System	1,624,000,000 00
Railroad retirement account	805,500,000.00
War housing insurance fund	3,000,000.00
Certificates of indebtedness:	
Adjusted-service certificate fund	12,250,000.00
Federal old-age and survivors insurance trust fund	5,995,000,000.00
Government life insurance fund	1,254,000,000.00
Unemployment trust fund	7,142,000,000.00
Total, special issues	27,366,460,000.00
Total, interest-bearing debt	$255,113,412,039.10
Non-interest-bearing debt:	
Public issues:	
Matured debt on which interest has ceased (payable on presentation)	230,913,535 76
Debt bearing no interest (payable on presentation):	
Special notes of the United States [1]	
International Bank for Reconstruction and Development series	415,785,000 00
International monetary fund series	1,724,000,000.00
United States notes, less gold reserve	190,641,585.07

[1] Issued under the provisions of the Bretton Woods Agreements Act, approved July 31, 1945, and under the authority and subject to the provisions of the Second Liberty Bond Act, as amended The notes are non-negotiable, bear no interest, and are payable on demand

ANALYSIS OF THE PUBLIC DEBT

National and Federal Reserve bank notes assumed by the United States on deposit of lawful money for their retirement	516,765,561 50
Other[2]	94,865,387 24
Total, non-interest-bearing debt	3,172,971,069 57
Total, public debt on basis of Treasury daily statement	$258,286,383,108 67

[2]Includes excess-profits-tax refund bonds amounting to $57,995,648.75 on June 30, 1946, and to $19,185,739 72 on June 30, 1947

The pre-war bonds were those only of World War I, and were negligible by comparison All other pre-war bonds and obligations, such as those of the Panama Canal, Civil War and Spanish-American War had been liquidated Over forty issues of Treasury bonds were outstanding to the total of over $119,332,000,000 at interest rates varying from 1.75 to 4.25 per cent Nineteen issues of Series A to G United States Savings Bonds were outstanding in the hands of the public to the amount of over $51,366,000,000.

The rates of interest of other series of obligations varied, such as Treasury bills, bearing 375 per cent; certificates of indebtedness, 875 per cent, Treasury notes, from 75 to 1 5 per cent The so-called special issues consisted of bonds which the federal government had exchanged for the various trust funds, such as the Unemployment Trust Fund, entrusted to it for safekeeping The federal government had outstanding over three billion dollars of non-interest bearing debt in 1937, which consisted principally of matured bonds, United States savings stamps, and United States notes The special notes of the United States were issued under the provisions of the Bretton Woods Agreement Act of July 31, 1945, and under the authority, and subject to the provisions, of the Second Liberty Bond Act These notes are nonnegotiable, bear no interest, and are payable on demand.

The maturity distribution of the federal debt, by classes, is shown in the table on page 395.[11]

In the above table, it should be noted that the volume of short-time borrowing of the federal government greatly increased

[11]Sources *Treasury Bulletin*, August, 1941, pp 24–25; August, 1942, pp. 45–46, August, 1943, pp 47–48, September, 1944, pp. 47–48; September, 1945, pp. 51–52

MATURITY DISTRIBUTION OF THE FEDERAL DEBT
(Par value in millions of dollars)

June 30	Total	Within 1 year	1–5 years	5–10 years	10–15 years	15–20 years	Over 20 years
1941	44,072	4,078	18,239	9,940	8,362	3,436	——
1942	55,122	8,087	17,388	17,126	6,447	3,336	2,716
1943	99,333	35,811	20,843	23,051	6,641	3,653	9,309
1944	141,591	51,246	25,061	33,889	9,783	10,246	11,343
1945	181,353	60,646	34,801	41,516	11,679	19,281	13,396

toward the close of the war Those short-time securities were either paid as due or were reissued in consolidated long-term bonds In most instances they were paid and cancelled It should also be noted that a relatively small part of the federal debt has a maturity date of over twenty years. It should be further observed that the war-and peace-time spending has left a very great post-war debt On June 30, 1944, the public debt was $198,000,000,000, and a year later, approximately $258,000,000,000. It reached an all-time peak of $279,000,000,000 in March, 1946, after which began the long grind of liquidation Congress had authorized a debt limit of $300,000,000,000 during World War II, since reduced to $275,000,000,000 In view of such huge totals, administration of the public debt and of related fiscal policies presents intricate problems for the future. These problems will be considered in a subsequent chapter on debt management

The primary achievement of the debt policy during and since World War II has been the maintenance of low and stable rates of interest. The average rate of interest on the public debt is and has been under 2 per cent (actually 1 959%), which makes a total debt (annual) service charge of about $5,000,000,000. Interest received from all new issues is fully taxable As a result, the net cost per dollar borrowed is now about one-third of this service during World War I

There has been the broadest possible distribution of the debt, first, to combat inflation, and, second, to effect as wide ownership of the obligations as possible For these reasons, it has been the government's deliberate policy to offer the highest rates of interest on those bonds sold to individual purchasers in limited amounts As of 1948 there were over fifty million subscribers to federal bonds in the United States

European Recovery Program. The European Recovery Pro-am (ERP), or the Marshall Plan as it is popularly called, went ito effect in April, 1948, to continue in existence until July 1, 952, unless extended by Congress. The purpose of ERP was to id certain countries in Europe in their post-war economic re-overy Lend-lease and UNRRA were able to give these countries start, but it was not sufficient These countries needed food, oal, steel, machinery, petroleum, fertilizer and a long list of ther commodities which they are unable to supply for themselves

Sixteen European countries accepted the plan and agreed to abide by its provisions, chief of which were that they would collectively present to the United States Government an inventory of their own resources which they might use to aid themselves, a list of their total needs and deficits, and the net requirements which they asked ERP to supply They also agreed to build up their own farming and industry, to stabilize their currency and to co-operate among themselves to help each other; to supply United States Government with certain items for stockpiling; to pay for what they got by setting aside funds in their own currencies; and to report each quarter what they have done with the aid.

The total cost to the United States Government was set by The Committee on Foreign Aid at about $17,000,000,000, as follows

Item	From		To
1. Deficit of the 16 European nations out of trade	$19,400,000,000	to	$22,100,000,000
2 Added· Deficit of the U.S.–British Zone		$600,000,000	
3 Total Cost	$20,000,000,000	to	$22,700,000,000
4. Subtracted· Financing by World Bank		$4,100,000,000	
5 Total needed from U. S Treasury	$15,900,000,000	to	$18,600,000,000
6 Subtracted Separate Appropriations		$800,000,000	
7 Total needed from ERP	$15,100,000,000	to	$17,800,000,000
8 Total to be authorized by Congress for use over 4 years		$17,000,000,000	

The chief sources of these funds are direct appropriations by Congress to be furnished through the Secretary of the Treasury, the Export-Import Bank, private loans, and liquidation of dollar assets of the benefitted nation For 1948, the Committee on Foreign Aid (CFA) fixed the distribution of these goods and services on the basis of 34 per cent to Britain, 22 per cent to France, 14 per cent to occupied zones in Germany, and 30 per cent to other countries approved for such aid The method of payment will vary with the type of goods provided In some instances, such as for food, fuel and fertilizer, the aid will be an outright gift. In other cases, as for industrial machinery and equipment, the aid will be financed by a loan from the World Bank. In general raw materials and farm machinery will be financed by the Export-Import Bank Foreign owned assets in this country will not be touched, if that can be avoided.

The ERP is not dissimilar to the RFC, except that it pertains to world post-war economic recovery It is a bold attempt to save the people of the war-torn world from starvation, to assist them to re-establish themselves economically, and to provide present and future markets for products of the United States

Contingent Liabilities of the Federal Government. Early in 1930, it became evident that the entire structure of private finance in the United States was in danger of collapse Railroads, insurance companies, private corporations, banks — institutions which represented the economic backbone of the country — were in distress If those enterprises had been allowed to become bankrupt, a widespread economic catastrophe could not have been averted The states and local units made some effort to furnish financial aid to these distressed interests, but without very effective results. Ruinous financial conditions were so widespread that only the great resources of the federal government could cope with these problems Accordingly, Congress provided a group of financial agencies to furnish aid to the distressed groups. In order to raise funds for such purposes, many agencies were authorized to issue bonds and other instruments of indebtedness, which were guaranteed both as to principal and interest by the United States Government

The following table gives the contingent liabilities of the United States government for June 30, 1947:[12]

[12] *The Budget of the United States Government for Fiscal Year Ending June 30, 1949*, p. 1308

CONTINGENT LIABILITIES OF THE UNITED STATES, JUNE 30, 1947

ISSUING AGENCY	TOTAL
Guaranteed Obligations	
1. Commodity Credit Corporation	$40,330,032.15
2. Federal Farm Mortgage Corporation	2,625,794.03
3. Federal Housing Administration	38,210,279.65
4 Public Housing Administration	2,068.40
5 Home Owners' Loan Corporation	4,236,005.37
6. Reconstruction Finance Corporation.	3,060.50
7 Tennessee Valley Authority (see item 10)	———
8. U. S. Maritime Commission	———
Total guaranteed obligations	85,407,240.10
Contingent Liabilities	
On credit of the United States	
9 U. S. Postal Savings System funds due depositors	3,493,748,308 07
10. Tennessee Valley Authority (see item 7)	9,864,393.41
11. Canal Zone Postal Savings System funds due depositors	———
Total, based on credit of the United States	3,503,612,701.48
Other obligations	
12 Federal Reserve notes (face amount)	23,444,193,468 08
Total contingent liabilities	26,947,806,169.56
Total guaranteed obligations and contingent liabilities	27,033,213,409.66

It is expected that these contingent liabilities will be liquidated by the respective issuing agencies, and therefore will never become part of the permanent debt of the United States Government To date, there have been no defaults of consequence In fact, many matured obligations, as shown in the table are now nominal in amount. Still further reductions of these totals may be expected as the old New Deal agencies are further liquidated or merged with other departments of the federal government, or their functions turned back to the states

State and Local Governments. During the depression years following 1929, many states and local governments experienced

great difficulty in balancing their budgets. Their expenditures rose, and their incomes decreased because so many of their tax bases were affected by the depressed condition of business Many states and local units issued script and other short-term credit instruments to meet current expenses, and not a few defaulted on their bonds and other obligations One state, Massachusetts, made provisions for its local units to go through a reorganization, not unlike bankruptcy, when their fiscal conditions required it.

During the boom years of World War II, the states and local units were in a most favorable condition They had none or little of the war expenditures which the federal government had to assume. They benefited greatly by the increase in national prosperity, with the result that there was an excess of revenue over expenditures in most states From 1937 to 1944, total state revenues showed an increase of over $2,500,000,000, or about 62 per cent The state tax providing the most revenue in 1945 was on individual and corporate incomes, and amounted to $809,900,000, or 230 per cent over 1937. The next most productive source of revenue in 1945 was the general sales tax It produced a total of $775,000,000, an increase of 80 per cent over 1937. Other sources which showed substantial gains were the motor fuel tax, motor vehicle licenses, and the alcoholic beverage tax The property tax ranked sixth among the state taxes in 1945, producing $229,000,000, which represented a decline of $54,000,000 from the 1937 collections [13]

The states have made extensive use of their surpluses and increased revenues. The 1945–1947 state budgets showed a total increase of $14,600,000 for general government During these surplus years, most states planned extensive highway construction for the 1945–1947 biennium The state of New York spent over $122,200,000 more for highways in 1946 than it did in 1945 Practically all state budgets for 1945–1947 showed a substantial increase in expenditures for hospitals, eleemosynary institutions and welfare, and not a single state has decreased its appropriations for education Surpluses and revenues have been used freely for debt retirement with the result that many states have entirely liquidated all their obligations.

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[13] *Significant Trends in State Revenues* (New York The Tax Foundation, 30 Rockefeller Plaza, 1946)

The financial condition of most states seemed to be reassuring. Revenues were up; debts were paid or reduced, and in many instances, there was a substantial surplus There was, however, another side which was not always considered Most revenue increases were the result of taxes directly attributable to war-inflated production, which began to decrease with a fall in post-war incomes Also many state expenditures were deferred because of the war and will sooner or later have to be made. In many instances, expenditures and commitments have been made without regard to the future financial condition of the state [14]

The greatest increases in state commitments were for welfare, public assistance, hospitals, and aid to cities and schools. State aids for those purposes became necessary because of the inability of local governments to meet those burdens. Should state revenues decline, which is quite probable within the next few years, many of those commitments and payments could not be met under the existing tax structure Existing expenditures for general government could not be reduced materially School aid has become a fixed charge, and welfare, public assistance, eleemosynary institutions, and highway construction expenditures might even be more difficult to reduce In the face of the rather rigid expenditure program, further complicated in many states by extensive earmarking of taxes, there is no assurance that future state revenues will be adequate to meet these fiscal demands. There are, however, certain alternatives First, rates of existing taxes may be increased; second, new taxes may be imposed, third, current expenditures may be financed through the use of borrowed funds. But such remedial steps can only be taken with great difficulty It therefore seems necessary and advisable for the states and local governments to give serious and immediate attention to their future fiscal programs

Summary. The last normal fiscal year was in 1939 After that date the federal government rapidly put its fiscal policy on a war basis from 1939 to 1947 New and higher taxes were imposed. Expenditures for ordinary, as well as for war, purposes rapidly increased The deficit increased which caused the national debt to mount rapidly from a little in excess of forty billions

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[14] *Rising State Expenditures* (The Tax Foundation, 30 Rockefeller Plaza, New York 1946)

in 1939 to over two hundred seventy-nine billions in March, 1946, after which it started on the long road of liquidation.

A shift from peace to war economy was quickly made. To hold down the tendency to inflation, Congress provided for controls of prices, rents, wages, incomes, credit, and for rationing. The enormous accumulation of purchasing power in the hands of the public was, in part, taken by higher taxes and by investments in federal securities and war industries. How much those economic controls resulted in a saving both to the consumer and to the federal government, it is impossible to say, but as compared to the free play of prices during the Civil War and World War I, the amount must be very great.

The peak of the budget expenditures was reached in the fiscal year of 1945 when it was slightly in excess of one hundred billion dollars. After that date, the budget totals decreased If the national income can be maintained at a high level, it should be possible to balance the federal budget and at the same time leave something for debt reduction

The federal debt has become very complex Many new forms of borrowing have been introduced, partly to extend the privilege of security purchasing to the low-income groups, and partly to "soak up" excess savings to curb inflation Toward the close of World War II, the federal government borrowed very heavily on short-time basis, and less on long-term Many of the short-time securities will be paid as they fall due, while part of them will be consolidated in long-term issues of ten or twenty years, or longer

A distinction should be made between the direct debt and contingent liabilities of the federal government The contingent liability is the guaranty by the Government as to both principal and interest of the obligations issued by certain agencies created during the depression years of 1933 to 1939 There has been as yet no substantial default in the debts of those special agencies It is, therefore, not expected that any of this contingent liability will become a permanent part of the direct debt of the United States Government.

TEXT QUESTIONS

1 State the difference when an economy shifts from a peace- to a war-time basis and when its shifts from a war- to a peace time basis What are some of the principal problems in each case?

2. What effect did the political conditions in Europe in the latter part of 1939 and 1940 have on the fiscal policies of the federal government?
3. What were President Roosevelt's early mobilization plans and their financing?
4. Explain fully the price controls during World War II, and their effects?
5. What effect did these price controls have on the fiscal policy of the federal government?
6. What was President Roosevelt's seven-point program to check inflation? Was it effective?
7. Give several reasons for the Lend-Lease Program. Why did the federal government not lend outright to the European Allies?
8. Can you state the chief purposes back of the early war tax program? What feature or features were intended to prevent undue inflation?
9. What part did the banks play in financing World War I; in World War II? Why the difference? Why did the federal government make this distinction?
10. Analyze the federal war budgets, showing percentages of increase and decrease.
11. What was the Government Control Act of 1945, and what functions did it perform?
12. In what year was the greatest war expenditure by the federal government? Go to the federal budget for this year and determine the percentage that was spent for legislative, executive and judicial.
13. What two divergent economic policies could the federal government choose in 1947? What choice did it make, and with what results?
14. What conclusions can you draw between control under the OPA and the trend of BLS Wholesale Index Number? Compare similar results with World War I.
15. Analyze the public debt according to its status as of June 30, 1947. What is meant by non-interest-bearing debt?
16. Explain the distribution of the maturities and securities of the public debt.
17. What are the chief functions of the European Recovery Program? How is it to be financed? What are some of its expected economic repercussions?
18. What is meant by the contingent liabilities of the federal government? What would happen in case these liabilities were to go into default?

RESEARCH TOPICS

1. When England borrowed the $3,750,000,000, what was the procedure by which this loan was made available for its use?

What evidence of indebtedness did the English Government execute? Why was the lend-lease procedure used during the World War II instead of an outright loan.

1. The federal government frequently organized separate corporations, such as The Tennessee Valley Authority or the Reconstruction Finance Corporation, to effect certain purposes which it might have to do directly In such cases, the federal government guarantees the securities issued by these corporation rather than to issue its own direct obligations. Such obligations are sometimes known as the Contingent Debt of the United States Government Can you explain the reasons for such procedure of government financing?

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CHAPTER 16

PUBLIC DEBT MANAGEMENT

The history and causes of public debts, the execution of public loans, kinds and types of government securities, their retirement and liquidation, and analyses of the federal and state debts have been discussed in previous chapters. It now remains to consider the practical matter of public debt management and its economic and political repercussions

What is the relation between the public debt and interest rates, the general level of prices and prosperity of a community, and the national income? What is the legal liability of the federal, state and local governments on their debts? Is the public debt any different in its economic and political aspects from private debts? Is the public debt just another credit obligation, or can it be used by government as an instrument to control the whole economy? How will public debt affect the number of jobs and employment, the wages labor will receive, what and how much they can buy with their income and what their savings will be worth?

Each of these questions, and others, will be considered in a practical sense in this chapter on public debt management

Instruments of Government Credit. A lender to a government always receives some kind of evidence in writing that he has made the loan, which also states in the indenture the conditions of payment A government may use many kinds of promises to pay, some of which are made negotiable to bearer. At the end of the Civil War, for example, there were outstanding four distinct kinds of promises to pay. (a) long-term bonds, (b) short-term loans, (c) temporary indebtedness; and (d) non-interest-bearing notes, such as greenbacks, made legal tender and payable to the bearer Subsequent periods, especially during war, have produced very complex public debt structure Even in times of peace, in the orderly management of their finances, governments of all level use several kinds of evidences of debt In general, the bond represents the long-time debt, but it is often common practice for a government to issue short-time promises to anticipate payment of taxes, or in expectation of later funding of short-time loans into bonds.

A government obligation bears on its face a promise to pay. If it is made negotiable, it is payable to bearer so that the title will pass unconditionally to an innocent third party on delivery without endorsement. The indenture usually states the amount of the principal, its maturity, the amount of interest, when it is to be paid, conditions of redemption, and usually certain provisions with regard to taxation, or exemption from taxation.

Bases of Government Credit. The basis of government credit is by no means a simple condition Among other things, it depends upon the character of the people of the nation, their reputation for honoring their debts, the tax systems of the country and the willingness of the people to subject themselves to taxes sufficient to liquidate interest and debt, the character of the resources of the country, the status of economic development, and the history of government with respect to its methods of handling debts. The reliability of government to meet its indebtedness as it falls due varies For example, a nation, at least a great nation, whose domain covers a large area and whose people possess large quantities of taxable wealth is spared some of these hazards of debt repudiation and debased credit because both resources and industries are varied. But this does not affect the principle that debt-paying power depends upon the capacities of people and of industries to produce a surplus above their needs. In some of the smaller nations over the world, industrial efforts are concentrated largely in a few money-yielding industries. If these are based upon vanishing resources, as is often the case, it is evident that the financial managers must take proper care, otherwise the nation may find itself in the position of being unable to meet its obligations. Even a great nation, as has been the experience of some European countries, may handle its industrial affairs in such manner as to diminish the power of the people and industries to produce goods and services They, too, are faced with the principle just discussed.

Relation Between Taxes and National Income. The support of government must come out of national income, unless capital levies are to be exacted, which is produced by business and other industrial activity. If a nation is to remain on a basis of private enterprise, the question arises: How much of its future taxable income can business pledge to the government; and how much of the present national income can be taken by taxation? On this

point, Professor C F Bastable remarked: "The productiveness of every separate tax has its limits, and so has that of the tax-system taken as a whole. Each additional charge implies a more than proportional sacrifice by the contributors, and greater difficulty in getting in revenue on the part of the State."[1] Referring to England, possibly about 1890, he suggested that "it appeared that fifteen per cent was probably the largest proportion of the national income that, under ordinary conditions, could be taken for the state services . " The fact that he made this statement in his discussion of the relation between borrowing and taxation as modes of meeting extraordinary expenditures, does not alter the principle that there is a condition of, to use his phrase, "diminishing returns in public receipts."

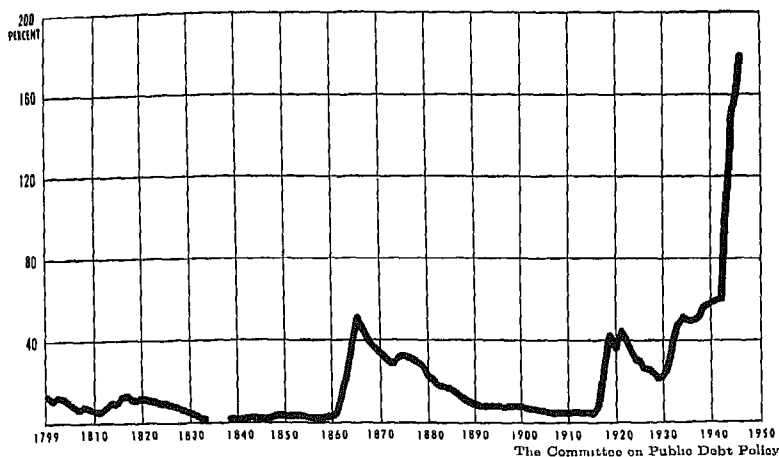
A few more recent writers have fixed 25 to 33⅓ per cent of the national income as the most the state may take during normal times; it may take more during an emergency The point at which the return begins to diminish can be decided only by experience; but that there is such a point no one can deny.

To put these ideas in other words: government is a claimant to a share of the national income; this income is the product of the productive enterprise of citizens, the point will be reached sometime when government cannot increase its claim without impairing the various sources from which the income flows.

In this country, governments, especially the federal government, have varied greatly from time to time the proportions between borrowing and taxation in raising their revenues In the case of the federal government, during ordinary times, the budget is usually in balance and little use is made of borrowing. But in case of an emergency both taxation and borrowing must be used to a very great extent. During the War of 1812 the federal government raised its income by taxation and borrowing in the proportion of 43 and 57 per cent, respectively. Congress, during the Civil War, attempted at first to finance about 90 per cent of its expenditures by borrowings, and the balance by additional taxation and the issue of the greenbacks The proportion during World War I was 72 per cent borrowing and 28 per cent taxes and in the World War II it was 57 and 43 per cent, respectively

In the diagram on page 407, the percentage of federal debt to national income was small until the Civil War when it climbed to

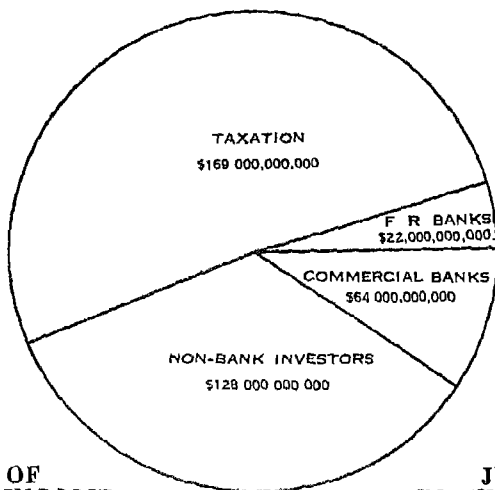
[1] *Public Finance* (London Macmillan & Co , Ltd , 1927), p 676

PERCENTAGE OF FEDERAL DEBT TO NATIONAL INCOME

46. In 1836, it disappeared entirely because the federal government was then out of debt From the Civil War until World War I it fell. By the end of World War I it again reached 44 per cent. After a brief drop it again rose during World War II when it reached 176 per cent of the national income This last period was one of great deficit financing.

National Debt and Banks. It seems necessary to present certain economic relationships between the national debt and banking even at the expense of some repetition of what has been discussed in earlier chapters

Inflation may involve problems of money and prices, taxes and public debts, and bank credit In ordinary times, governments are able to finance all their functions out of taxes, thereby keeping their budgets in balance except for occasional short-time borrowing. Under such circumstances, there is little to no inflation of general prices because such fiscal transactions merely involve transfer of purchasing power from the taxpayer to his government But during periods of emergency, such as war, governments usually must resort to other sources of income, as borrowing and the issue of irredeemable paper currency When governments issue irredeemable currency directly or through banks, general prices always rise because the value of such money depends upon

its quantity and varies inversely with the amount in circulation. The stopping point of this type of inflation is when the purchasing power of the paper currency in goods and services reaches zero. When governments supply their deficiencies of revenue by means of borrowing they often sell their bonds and other securities to commercial banks and other financial institutions which have the ability to create credit.

The bank, for example, receives these securities and credits the deposit account of the federal government against which it may draw its checks to pay its accounts. In this manner the bank exchanges its promise to pay on demand for the future promise to pay of the federal government thereby creating new purchasing power out of its credit expansion. This process greatly inflates the entire price mechanism and the supply of money.

SOURCES OF FEDERAL INCOME **JULY 1, 1941 TO JUNE 30, 1946**

As shown in the above chart the sum of $383,000,000,000 was raised by the federal government between July 1, 1941, and June 30, 1946, taxation supplying 45 per cent and borrowings the other 55 per cent; the banks supplying a little under 23 per cent and non-bank investors 32 per cent of the borrowed sums Therefore, despite the policy of the Treasury to raise as much funds as possible by taxation and by borrowing directly from individuals and private corporations, nevertheless the banks of this country became heavy investors in government bonds, the Treasury

attempting to restrict their purchases as much as practicable to short-time obligations and other such securities.

During and after World War II, the federal government discovered that it could not supply its fiscal requirements without using the banks, and yet it would have to move cautiously to avoid undue inflation. The banks performed numerous and various services They became the largest single channel for selling government securities. They took bond subscriptions, issued Savings Bonds, delivered securities, and made collections on coupons and bonds. While the banks were discouraged in their investment in long-time government bonds, they were encouraged to invest in short-time securities by the following means: First, the banks were allowed to receive government bonds and to pay for them by crediting the account of the federal government. They were not required to put up funds against them until the Treasury began checking out its account. Second, the banks were not required to deposit reserves against these war checking demand accounts with the Federal Reserve Banks. This act released considerable funds in the member banks Third, to encourage the banks to invest in short-time obligations, the Federal Reserve System fixed buying and selling prices on three-month Treasury bills. Fourth, the Federal Reserve banks established preferential borrowing rates to the commercial banks if they bought short-time government securities. Fifth, when commercial banks were in need of funds to replace reserve requirements, the Federal Reserve Banks purchased their government securities in open market.

Effect of Public Borrowing on Industry. One concern of the state is to maintain the progress of the industries upon which the livelihood of the people depends, and to which it must have recourse, through taxation, to support its own aims. In this connection, it will be recalled that one of the arguments used by President Andrew Johnson in favor of debt reduction was that taxation for the purpose of paying interest and principal on the debt consumed large sums which "would otherwise be used by our enterprising people in adding to the wealth of the nation." In other words, the question presented here is: "Does government compete with private industry for the savings of the community?"

Whether or not government borrowing competes with private borrowing depends upon several circumstances Lending is a

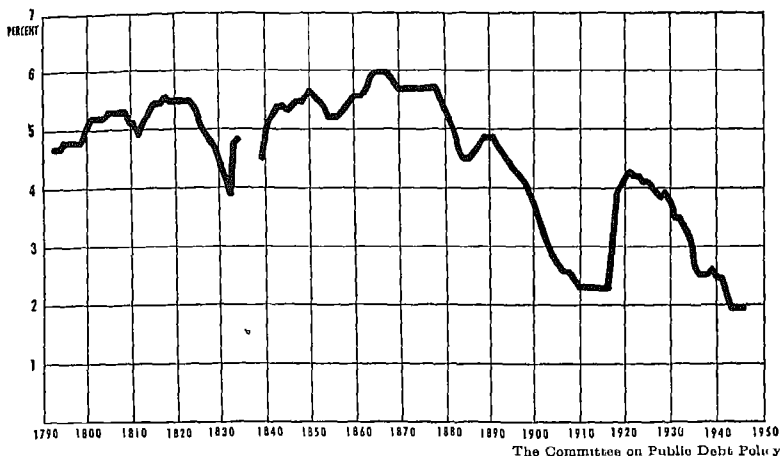
voluntary act, and, to obtain funds, government must offer something more attractive than is possible with private industry This is usually a promise of greater security A sound government can borrow at lower rates than is possible with private organizations In fact, the rate of interest which government pays on its loans is sometimes called the non-risk interest rate Thus government loans attract a class of investors who hesitate to put all their savings into manufacturing, commercial, or other industries It can hardly be claimed that such funds are withdrawn from business use These savings were never intended for investment in industries In fact, it is possible that the security promised by government investment stimulates some savings, in that there is a guarantee that these sums will not be lost because of the many hazards of business

Modern industries present varying degrees of risk, as is indicated in part by the different rates at which such enterprises sell their bonds No doubt there is a twilight zone somewhere in which investors are willing to take a little more risk for the advantage of a higher rate of return than government offers In this event, some persons divert their savings to industrial channels. It is this portion of the nation's savings that is affected by government borrowing A change of interest rate, or of the character of security, either by government or by industry, shifts the flow of such funds either to government or to private loans according to the superior attractiveness of one or the other.

The diagram on the opposite page shows the interest rate on the interest-bearing national debt

At the time of the organization of the federal government in 1787, it was able to borrow at about 4½ per cent. This rate gradually rose to an average of about 5½ per cent during the period around 1820, after which it fell to a point slightly below 4 per cent The high was during the Civil War when it rose to 6 per cent, after which it fell to about 2.3 per cent World War I forced the rate up to 4.4 per cent in 1920 Despite the enormous deficit financing during World War II, the interest rate on the public debt remained low, which was indicative of the excellent credit standing of the federal government This very low rate of interest at which the federal government could borrow during the World War II years was partly due to the price control and partly due to the enormous supply of credit dollars

INTEREST RATE ON INTEREST BEARING NATIONAL DEBT

The Committee on Public Debt Policy

Opinions of Writers. Over the years, writers have had conflicting ideas with respect to the advantages and disadvantages of public debts. "Bishop Berkeley suggested that the public funds of Great Britain were to be considered a 'mine of gold';[2] and Melon, a French mercantilist, declared that 'the debts of a state are debts owed by the right hand to the left, by which the body will be in no way weakened if it has the necessary nourishment and is able to distribute it' "

Isaac Pinto, a Dutch merchant, observed that, "At every loan the government of England, by granting the creditors the proceeds of certain taxes which are pledged to pay the interest, creates a new, artificial capital which did not exist before and now becomes permanent, fixed, and solid "[3] He was of the opinion that such credit penetrated every division of business, domestic and foreign, spread a stimulating influence in every direction, and served as a means of giving life to industrial activity which otherwise would not have existed. "The magic of credit," he said, "and of the circulation of money, has produced this mass of wealth by successive operations with the same coin   Public funds are the magnet which draw money, what I say is literally true " The reader will

[2] *The Querist*, No 233 (1735-1737) Quoted from Charles J Bullock, *Selected Readings in Public Finance*, p 822

[3] *Ibid*

recognize in these statements some of the philosophy which has inspired the doctrine of "pump priming"

Strangely enough, Alexander Hamilton, at one time, held a similar view. "Trace the progress of the public debt," he said, "in a particular case. The government borrows of an individual $100 in specie, for which it gives its funded bond. These $100 are expended on some branch of the public service It is evident that they are not annihilated; they only pass from the individual who lent, to the individual or individuals to whom the government has disbursed them. They continue, in the hands of their new masters, to perform their usual functions, as capital. But besides this, the lender has the bonds of the government for the sum lent. These, from their negotiable and easily vendible nature, can at any moment be applied by him to any useful or profitable undertaking which occurs; and thus the credit of the government produces a new and additional capital, equal to $100, which, with the equivalent for the interest on that sum, temporarily diverted from other employments while passing into and out of the public coffers, continues its instrumentality as capital, while it remains not reimbursed."[4]

No clearer statement could be made for this side of the case The reader may recognize in the process of events described by Hamilton the sequence which occurred with United States bonds during World War I Most persons would urge that this procedure leads to credit inflation, as was the fact during the war period. If inflation were to continue indefinitely, and to spread its influence, equally and contemporaneously, over all classes of people and industries, there would be nothing to dread. But there is always an aftermath which darkens the picture painted by Hamilton

It might be said in passing that Jay Cooke, whose organization floated many millions of bonds after the Civil War period, held that "our national debt, made permanent and rightly managed, will be a national blessing" Cooke, however, reached his conclusion by a chain of reasoning different from that employed by Hamilton. He thought that the rapid expansion of industry would so reduce the burden of the debt that its weight would be imperceptible.

Adam Smith, and those who followed his reasoning, took a different point of view. He replied to the argument that the

[4] *Ibid.*, p. 824.

loan created new capital saying that, "This new capital, however, which they in this manner either bought or borrowed of other people, must have existed in the country before, and must have been employed as all capitals are, in maintaining productive labor "[5] According to his reasoning, when public expense is defrayed by debt funding, the outcome is an annual destruction of some capital which was in prior existence "by the perversion of some portion of the annual produce which had been destined for the maintenance of productive labor, toward that of unproductive labor."[6]

Despite variations of opinion, practically all writers are agreed on one point, namely, the advisability of diminishing the burden of the debt. The greatest differences in thought refer to method One group proposes to diminish the burden by extinguishing the debt, another seeks to achieve the same purpose through the development of natural resources, and of human productive power. Those who hold the latter point of view think that the end can best be achieved by creation, or maintenance, or enlargement of the debt They believe that a public debt will become less burdensome in the future than at present

It is quite evident that the optimistic views are based on faith It by no means follows that, because the leading nations have experienced over a century of unusual industrial expansion, their growth will continue at something like the same pace. For one thing, a great factor in past expansion has been the abundance of natural resources; but many of these are vanishing in character, as is the case of petroleum, timber, iron ore, the original fertility of the soil. Future supplies must be obtained at greater expense of human effort, unless the progress of invention and discovery circumvents the evils of vanishing natural products Then, too, the optimistic view assumes the continuance of all other active factors which have prevailed in the past

Payment of the Debt. Two points of view are presented on this question Those who uphold one side of the case urge that the debt should not be paid; on the other side the argument favors payment

Again it is necessary to return to fundamentals To put the case in the words of Bastable. "Both of public and private

[5]*The Wealth of Nations*, Book V, Chap III
[6]*Ibid*

credit it is indisputably true that repayment can be made in no way except by excess of receipts over expenditure The only possible mode by which either the individual or the State can get rid of liabilities is by making income greater than outlay. Hence in all well-organized financial systems the surplus of each year is applied for this purpose, and in the continuous action of those excess receipts lies the hope of complete redemption."[7] He also quotes R. Hamilton for the statement that "the excess of revenue above expenditure is the only real sinking fund by which public debts can be discharged "

This seems axiomatic; yet, at one time or another, persons have suggested some scheme by which a debt can automatically extinguish itself. The sinking fund is one of these Some writers have dwelt upon the magic of compound interest as a solution to the debt problem The government is to start the machinery in operation by appropriating to the fund a certain amount at the beginning, possibly the proceeds of an occasional surplus Then the interest on the debt, active and retired, is to be continually paid to the fund Meanwhile, from time to time, the administrators of the fund redeem the debt according to the prescriptions laid down by the law-making body.

In 1786, this idea was incorporated in the famous sinking fund experiment by Pitt A special board of commissioners was created. To them was assigned £1,000,000 annually for the purchase of stock This was not to be cancelled, but allowed to accumulate, the interest being applied to fresh purchases until each original £1,000,000 had become £4,000,000

A general criticism of that fund is given in the following statement· "The pressure of war proved too much for the strict observance of this condition and various modifications were introduced, but the fundamental mistake of regarding the sinking fund as a separate and distinct source of wealth was still obstinately adhered to From this error followed the simultaneous borrowing and redemption that were supposed to keep up the public credit, but which really confused the accounts, and increased the cost of management Purchases of stock for the sinking fund and the issue of new loans at probably lower price meant so much loss to the State. A calculation of the differences shows

[7]Bastable, *op cit*, p 701

that the annual charge imposed by the use of the sinking fund during the period 1794–1816 was over £550,000."[8]

The student will recall the fact that a sinking fund device was a part of the financial schemes of Alexander Hamilton It will also be recalled that Albert Gallatin had little respect for this policy. The extinguishment of the federal debt in 1837 laid the sinking fund idea to rest, as least, temporarily, but it was revived again in 1862, with varying fortunes. The provisions were rather strictly maintained until the panic of 1873. Then, because of shrinkage of revenue, it was impossible to meet the requirements of the fund

In later years, the large surpluses made it possible to redeem the debt more rapidly than was required by fund provisions. Experience with this device in the United States illustrates one point, namely, that if the state is short of revenue, the sinking fund suffers along with all other obligations If revenue is larger than expenditures, service on the debt requires no sinking fund. Experience further shows that debts can be liquidated from surpluses only, and that the government must conduct its tax and spending system in such a manner as to meet its obligations

It might be added in this connection that progressive payment of a national debt raises the credit of the state, and makes possible future loans at a lower rate. A state never expects to pay all its debts at any one period, but through the process of "refunding" and "conversion," remaining portions of the debt may be continued until such time as the state deems advisable for further refunding or retirement. The advantage in this process is that successive operations may be carried on at low, or lower, interest rates, with the resulting saving to the state. But all this depends upon the policy of maintaining enough surplus over expenditures to permit the finance minister to handle the debt in this manner.

State and Local Borrowing. In theory, as least, the functions of the three grades of government in the United States are different But there has always been some overlapping of work — a condition which has undergone further development in recent years with the economic integration of the country and with greater unification because of the growth of various means of communication. Nevertheless, in spite of a rather wide twilight

[8] *Ibid.*, p 703

zone, certain functions can be assigned to each of the three general divisions These functions grade from rather general services, in the case of the federal government, to less general with the states, and to rather specific functions with the local divisions where the contact with the actual needs of the people is more direct and apparent. The rendering of some of these services requires at times larger income than can be produced by the annual tax bill; hence, the need of borrowing by the states and local units of government.

At one time or another, during the first half of the last century, the chief reasons for state borrowings were aid to internal improvements and development of banks In recent years, the construction of highways, provisions for charities, hospitals, correction, schools, and, in some instances, shortly after the close of the World Wars I and II, soldiers' bonuses, have been among the larger items In late years, the indebtedness incurred for highway construction has constituted about half the total of the debts of the states Another item, which has been growing in importance, is the debt incurred for public service enterprises

In the case of urban communities, the growth of the modern city, with the new and improved facilities that such aggregations of people require, has increased the burden upon these areas to such extent that the demand cannot be satisfied by the annual income from taxes Notably since 1880, the concentration of people in cities has gone on at a rapid pace. One result is that it is now necessary to rebuild most of the old facilities of the cities and to plan anew for both present and future This work includes street widening, enlargement of water systems, increase in provisions for the underprivileged, further development of the physical plant for the conduct of education, acquisition of locations for parks and playgrounds, and city beautification and planning with all that this implies

Many cities have lately undertaken ownership of light and power plants, and the operation of various kinds of urban transport Such public works are largely financed with borrowed funds These newer developments have reversed the position of states and cities as borrowers. As late as 1870, the indebtedness of the states exceeded that of the cities and towns [9] More recently, the

[9] Cf *A Compendium of the Ninth Census* (1870) (Washington, D C Government Printing Office, 1872), p 641

debts of the latter greatly exceed those of the former. This signifies that the great bulk of the work of caring for the everyday need of the citizen falls upon the community in which he lives.

This statement implies no criticism of the newer functions which cities have been required to perform. In fact, granted a reasonably good administration of local affairs, the urban unit is not only the logical organization to handle such work, but in all likelihood the most efficient It exists in the community where the service is rendered. It is directed by local officials who can be brought under close scrutiny of the people; consequently, the effectiveness of operation can be checked much more closely than in the case of direction by a more distant authority. Moreover, if as some authorities maintain, the operations of government are under the law of increasing cost, local control units of sufficient size to serve local needs are a less costly arrangement, per unit of service, than much larger units controlled by a distant authority.

Bases of State and Local Credit. Credit is no respecter of grades of government. The lender expects that the advanced sums will be repaid. As a guarantee, he looks to the productive capacity, present and future, of the community to which the loan is made In short, his assurance that the borrowing authority will meet its obligations rests upon the prospects of taxable income. In many instances in the United States, the income of communities has been a varying quantity. Mining, oil, lumber towns, which have enjoyed an ephemeral prosperity followed by a period of decline when the resource has been exhausted, are an illustration of this point Even in a permanent community, where tax delinquencies are allowed to accumulate, to be followed later by partial remissions, the credit basis may be impaired

In actual practice, municipal or other credit depends to a large extent on the reputation of the community for payment The significant feature is that all grades of government must derive their income from the productivity of individuals and enterprises. Besides these there is no other considerable source of revenue. Thus income is the ultimate basis of credit.

One peculiarity of local government, which is not shared by state and federal authority, is that the political subdivisions of a state obtain their power to borrow from the state legislature.

This condition sometimes affects the basis of credit, and, upon all occasions, it is a matter which lenders must watch carefully lest their funds be advanced to an authority which, either by intention or error, has stepped beyond its lawful bounds

Further, the credit of a state, or municipality, does not rest on all the income which arises within such areas Through various tax devices, the federal government takes a considerable portion of taxable local income, and the states depend upon the urban communities for a large part of their revenue In fact, a large draft by federal and state governments upon local income may impair the credit of such divisions

State and Local Governments as Business Enterprises. To some extent, even the federal government may be considered as a business enterprise But the idea is more applicable to the states, and still much more so to the cities This business aspect of city management is recognized in those communities which have adopted the city manager plan of administration The thought seems to be that political activities are of minor consequence, and that the real business of city administration is to render various social and economic services, and that this work can be done most effectively by the application of business principles to city affairs Herein is a significant difference between the administration of the work of the general government and that notably of the cities

This contrast needs further exposition For one thing, urban financiers are in a position to make rather close calculations as to income and outgo Spending may be made a matter of deliberation, and subjected to a large measure of control Only under very unusual conditions is a city face to face with emergencies of such magnitude that the prospective expense can be met only by borrowing. One great emergency, which a national government must face, is war; but states, and, of course, local governments are spared this misfortune. Usually, with the state and its subdivisions, there is time to contemplate a proposed project which requires resort to the loan market The merits for and against a proposition can be debated with deliberation, and, consequently, the city fathers are in about the same position as a board of directors of a corporation.

These conditions affect the management of city finances. For one thing, the urban community can choose its own time in

presenting a loan proposition It is not compelled to borrow when interest rates are unfavorable — a condition which sometimes confronts a national government. Moreover, it can make arrangements for an orderly discharge of debts Refunding, which is a common practice with national governments, is unnecessary if the finances are properly handled. The reason is that a city can make provisions for complete repayment at the time the loan is made.

Further, by contrast with national finances, urban financiers can make a rational application of the sinking-fund idea. The objections to its use by general governments are that such funds are often maintained through a fiction, as has been the history on many occasions in the United States, the fiction includes the assigning to the fund occasional surplus revenues, paying interest on the retired portion of the debt; and, in some instances, borrowing for the services of the fund In a former connection, it has been said that the only true sinking fund is clear revenue, and that this must be provided through the ordinary machinery of taxation.

Local finances differ from national also in the purposes for which funds are borrowed Certain local loans are contracted for objects which, if under private management, would be operated for profit They are commercial or industrial in nature Construction of water works, of light and power facilities, of means of urban transport are in this class. Here, management involves the ordinary principles employed by private entrepreneurs Provisions must be made for obsolescence, depreciation, repairs The life of the loan must not exceed the period of usefulness of the improvement. Charges for services must cover ordinary operating expenses plus added sums to pay interest on the vanishing debt, and also to make provision for the discharge of the principal In short, such enterprises must pay their way This can hardly be considered a matter of taxation because the community is receiving a service The charges should cover all the costs, including that of the borrowed capital

Certain rather large urban expenditures are made without the purpose of income Funds are borrowed for city improvements — public buildings, sewers, viaducts, railroad crossings, street widening, to name only a few such activities Although, in these instances, the repayment of the loan is not provided by a

harge for service, yet, since the loan is for a specific purpose, rovision should be made for its liquidation through the ordinary ax machinery. All those facilities, as with everything else that man produces, wear out, or become obsolete, or both Consequently, a sound principle requires that the loans shall be extinguished before it again becomes necessary to replace the worn out tuff

Ordinary administration expenses are, of course, met by the annual tax bill As has been indicated, the payment of interest and the amortization of the principal become annual charges upon the community, incorporated in the tax bills.

Largely because expenditures are continuous throughout the year, and tax receipts are often periodic, it is sometimes necessary for cities and other local units to issue warrants in anticipation of income. Such operations are temporary loans, and it is expected that the means of payment will appear sometime during the course of the year; the money is in sight but not in hand. Such operations cannot be classed with loans which mature over a period of years. They may, however, degenerate into floating loans — devices which indicate that a government is spending more than is justified by present, or by the immediate prospects of tax receipts. If such a practice is continued, such loans must eventually be funded. This system, including floating loans and their funding, cannot be justified.

Early Development of State and Local Debts. The growth of urban debts is a recent phenomenon In 1842, the total city debt amounted to only $27,500,000, and in 1870, to only $328,245,000[10] These figures are in strong contrast with those of the states. While the debts of states have never climbed to such high altitudes as those of the cities, they have been a feature of the financial history in this country for a much longer period. Even in pre-Constitutional days, the commonwealths were heavy borrowers.

During the War of 1812, the difficulties of transporting men and materials called attention to the inadequacy of domestic transportation Furthermore, the great migrations into the new country made necessary better means of communication than rivers and trails In time, there arose a strong demand for internal improvements This movement included not only road building, but the construction of canals, and, later, when the feasibility

[10] *Ibid.*

of railroads became apparent, also of this means of transportation. The completion of the Erie canal in 1825, started an intense rivalry among seaboard communities from New England to Georgia The purpose was to tap the prospective rich commerce of the interior, and to develop that area so that it would become a large producer of traffic In the words of one commentator. "Every city on the coast has its plans, and the States to which they belong have pledged gigantic means, stretching far beyond the wealth of former days."[11] "Gigantic" is a strong word, but it is descriptive of the large sums which states poured into internal improvement enterprises Many of them were unwise; some were constructed far beyond the needs of the time — and far beyond the possibilities of traffic which would pay operating expenses, much less, services of the debt In these activities, the states violated most of the canons of sound finance.

A significant feature was that, in many instances, these works become state enterprises, financed on the credit of the states, and constructed and operated by the states The enthusiasm for internal improvements led some states to incorporate in their constitutions provisions requiring the legislatures to undertake public works For example, in the first Constitution of Missouri in 1820,[12] it was stated that "internal improvements shall forever be encouraged by the government of this State, and it shall be the duty of the General Assembly, as soon as may be, to make provision by law for ascertaining the proper objects of improvement in relation to both roads and navigable rivers." Other states also used similar provisions Such statements were open invitations to legislatures to use the credit of the states for improvements In many instances, constitutional provisions were not required States embarked upon the loan policy without constitutional mandate. The outcome was a great surge of expenditures for such public works, and a large accumulation of state debts In 1835, these amounted to $66,000,000, and to about $200,000,000 by 1840 Large sums were borrowed for the construction of roads, and for the building of railroads and canals In the southern states, the preference seems to have been for the establishment of banks to supply planters with "capital," although some commonwealths in this division borrowed money for internal improve-

[11] Lippincott, *op cit*, p 250
[12] *Ibid*, p 245.

ments As the debts stood in 1842, Louisiana had borrowed more than $20,000,000 for banking purposes, Alabama, $15,000,000; Mississippi, $7,000,000, and other southern states were in the loan market for considerable sums

To supply their various purposes, large amounts were borrowed in European markets. The gradual extinguishment of the national debt, prior to 1836, seemed to have given assurance to foreign lenders that the credit not only of the United States government but of the political subdivisions was sound Coupled with this was the misapprehension that the credit of the states was somehow linked with that of the United States Government. At any rate, foreigners loaned freely.

In his annual message to Congress on December 2, 1839, President Martin Van Buren estimated that "the foreign debt of our States, corporations, and men of business can scarcely be less than $200,000,000"; he added that that required more than $10,000,000 a year to pay interest, and that this sum had to be paid out of the exports of the country [13]

Not only were such debts contracted far beyond the prospective means of payment, but the states failed to make adequate provision for the payment of the principal — possibly trusting to the rapid expansion of industry and commerce to supply the ultimate means of payment before disaster revealed the unwisdom of many undertakings It might be said in passing that seven states, which were then members of the Union, escaped debt creation, namely, Connecticut, Delaware, New Hampshire, Georgia, North Carolina, Rhode Island, and Vermont

The crisis of 1837 brought many public works to an end so far as state promotion was concerned Then followed the usual aftermath of defaults and repudiation For several years following the panic, a strong movement developed favoring the assumption of state debts by the federal government, but without success In his first annual message to Congress on December 7, 1841, President John Tyler referred to the controversy which he apparently regarded as settled He said: "For the debts thus contracted the states are alone responsible. I can do no more than express the belief that each state will feel itself bound by every consideration of honor as well as of interest to meet its engagements punctually "[14]

[13]Richardson, *op cit*, III, 552
[14]*Ibid*, IV, 87

In some respects, the internal improvement episode marked a turning point, both in political and economic policy. It was undoubtedly true that private capital could not have undertaken the work on the scale that was demanded by the people of the time. Moreover, the attitude which the dominant party was beginning to take was that only improvements of general concern were proper objects for appropriation by Congress. In this connection, Andrew Jackson quoted with approval a statement of President Monroe to the effect that Congress "has unlimited power to raise money, and that in its appropriation they have a discretionary power, restricted only by the duty to appropriate it to purposes of common defense, and of general, not local, national, not State benefit."[15] Following this reasoning, on May 27, 1839, Jackson vetoed a bill which provided for subscription to stock in the Maysville, Washington, Paris, and Lexington Turnpike Road Company.[16] Thus the inability of private capital to supply the funds, and the unwillingness of presidents to sanction appropriations for other than general purposes, threw the task of supplying internal improvements upon the states — a work which many of them undertook with great enthusiasm.

Later Development of State and Local Debts. The unfortunate experience in financing internal improvements tempered the attitude of the states toward debt creation for about a generation. Commonwealths which had encouraged public works by constitutional arrangements removed the enabling clauses from such documents and inserted provisions which prohibited the use of state funds for those works. In most cases, the public improvements were sold to private companies — where buyers could be found — and, with two or three exceptions, the states went out out of the business of building roads, canals, and railroads.

From a financial point of view, there was hardly a basis for credit for many of those enterprises. Economic conditions were changing rapidly; old forms of transport were giving way to new forms; and the credit that was pledged for internal improvements far exceeded the capacities of states to raise income sufficient to meet contractual obligations. In the rage of enthusiasm, many works were undertaken without forecast of their economic

[15] *Ibid.*, II, 486.
[16] *Ibid.*, p. 483.

value, and, of course, without proper consideration of the abilities of the states to make payment

With the departure of the states from those activities, the work fell to private companies An account of the building of such works under the new regime is not a part of the study of public finance It might be added, however, that, in many respects, the change only transferred activity to other parties By 1840, the superiority of railroads over canals and rivers had been fairly demonstrated Private capital turned to that line of improvement How rapidly the country was supplied by the new means of transportation is shown by the fact that the operated mileage increased from about 4,020 in 1842, to 30,626 in 1860, to 93,260 in 1880, and to 254,800 in 1934.

The total indebtedness of the states, and of their subdivisions in 1870, amounted to about $886,676,700 At that time, the debts of the states exceeded those of the cities and towns — a condition which was soon to undergo rapid transformation In view of the facts that the population of the country in 1870 exceeded 38,000,000, that commerce and industry had undergone great expansion during the past quarter century, and that the taxable wealth had become (in 1870) more than $30,000,000,000, it appears that these divisions used their potential credit with moderation

Whatever the debt experiences of the past, conditions in the new era that began about 1880 supplied not only new motives for the creation of debts, but the credit upon which a large credit structure could be built. The industrial background supplies most information for understanding the financial operations of that new era

For one thing, the capacities of the country for producing wealth increased enormously after 1880. In 1879, the capital invested in manufactures amounted to only $2,790,000,000, it increased to $44,466,000,000 in 1919. The value of the manufactured products, as set down by our census, was $5,369,000,000 in 1879, and $69,961,000,000 in 1929

The amount of taxable wealth in the United States increased more than seven fold between 1880 and 1922 when it reached $300,000,000,000. The expansion of railroads and public utilities and the development of new resources and of new types of transportation, not only added to the productive capacity of the coun-

try, but supplied many new sources of revenue. The credit basis of states and their subdivisions was greatly enlarged because of the increase in wealth and productive facilities. Personal and industrial properties increased in variety and in aggregate value. The wealth in real property, including real estate, plant and equipment, was estimated at $69,848,000,000 for 1900, and at $229,406,000,000 for 1922.

Meanwhile, the population of the country more than doubled between 1880 and 1930 when it reached 122,700,000. From the point of view of local finance, a significant feature of this growth was the increasing concentration of people in cities. In 1880, only 22 7 per cent of the population lived in places with a population of 8,000 or more. In 1930, the percentage was 49 1 Rural communities do not require the kinds, or extent, of public services which are demanded by people in cities; hence this concentration has increased the number and variety of services provided at public expense The greater financial burden which has fallen on the cities, as compared with rural communities, is due largely to this shift of population.

Most cities, like Topsy, just grew. There was no planning, or even thought of planning A little was added here and a little there, often under the influence of haphazard development of local transportation systems A notable illustration of new needs, caused by more recent developments, is the change made necessary by the coming of the automobile after 1900 City streets were designed for carriages and wagons, and, at that, for rather light traffic. The new rapid transportation contributed enormously to the problem of congestion, not only in the urban areas, but in surrounding regions to which people must have access. The old city lanes could no longer handle the traffic. In some cities, added traffic facilities have been supplied overhead, or underground. Such improvements usually require huge outlays of capital, which cannot be supplied by the tax bill of any one year

The existing urban layout proved to be inadequate in other respects. There was a notable deficiency of parks and playgrounds; public buildings were no longer adequate for the new demands which they were required to serve, greater protection was needed against fire and the depredation of criminal elements, who made use of modern developments to ply their trade, facilities for sewage disposal and for water supply became in-

adequate Meanwhile, there developed a demand for new types of humanitarian services — care of the sick, aged and incapable Specialization of public service became a new activity, augmented in its ramifications by the development of new engineering and health skills

States, also, were required to take part in the new programs, notably in the improvement of highways, which has become one of the largest single items in state expenditures The construction of public buildings, and the general expansion of social services have demanded ever increasing expenditures and the creation of debts The growth of state and local debts since 1890 is shown in the following tables:[17]

DEBTS OF STATES AND LOCAL GOVERNMENTS, 1890–1932*

YEAR	STATES	LOCAL GOVERNMENTS
1890	$ 211,210,000	$ 925,990,000
1902	239,369,000	1,630,070,000
1912	345,942,000	3,475,954,000
1922	935,543,000	7,754,196,000
1932	2,360,958,000	15,215,881,000
1942	2,620,320,000	13,493,560,000

*Figures are for gross debt less sinking fund assets.

PER CAPITA DEBT OF STATES AND LOCAL GOVERNMENTS, 1902–1932

YEAR	STATES	LOCAL GOVERNMENTS
1902	$ 3 03	$ 20 74
1912	3 57	35 81
1922	8 64	71 61
1932	19 07	122 29
1942	19 90	102 48

It will be observed from these tables that debts of local governments have increased to much greater magnitudes than those of the states It will be observed also that the momentum of debt expansion began to get under way shortly after 1900, and that since that date local government debt has about doubled in

[17] *Statistical Abstract of the United States*, 1935, pp 213, 214

every decade. About one-third ($5,241,000,000 in 1932) of the total debt is owed by New York, New Jersey, and Pennsylvania — the greatest industrial states In 1933, the debt of New York City was in excess of $1,800,000,000 and that of Chicago and Philadelphia each in excess of $400,000,000 Detroit owed more than $320,000,000, Los Angeles more than $220,000,000, and upwards of half a dozen other cities more than $100,000,000 [18]

With respect to the states, the practice of the legislatures in creating debts varies from community to community. In 1932, Connecticut had practically no debt ($108,000); the debt of Florida the same year was only $391,000 Large debts are not necessarily a feature of the industrial states, for example, North Carolina, in 1932, had a debt of $164,000,000; Arkansas also of about $164,000,000, and Louisiana of about $83,000,000 [19]

Summary. This series of chapters concludes a study of debt history, current debt analysis and debt management since the beginning of the existence of the federal, state and local governments Present policies of public debt management, whether federal, state or local, are the result of cumulated experiences over the last one hundred and sixty or more years

Of the three levels of government in the United States, the federal government, especially, has issued numerous types of instruments of credit until its public debt structure has become very complex. Until about the time of the Civil War, federal securities were called stocks largely because of their short-time nature, with occasional use of the bond on long-time issues. During the Civil War, the federal government issued long-term bonds, short-term loans, temporary obligations, and irredeemable currency The issue of the greenback or irredeemable currency during 1861 to 1865 by the federal goverment caused most of the inflation of that period and was responsible, to a large extent, for the great cost of the Civil War This represents the first and last use of this kind of financing by the federal government

There is a direct relation between taxes and national income because it is out of the latter that government must secure its revenue whether by taxes or by borrowing In fact, increased government income may be had in two ways; first, by increasing

[18] *Ibid*, p 219 Figures are for funded and floating debt less sinking fund assets

[19] *Ibid*, p 215 Figures are for funded, floating, current, and special assessment debt less sinking fund assets.

the tax rates and by extending the levies upon new tax bases, and, second, by increasing the national income. The excess of revenue over expenditures during the 1947 and 1948 fiscal years was due principally to the enormous increase in the national income

Banks have always occupied an important part in the fiscal affairs of government, in fact, the early banks, such as those of Venice and Amsterdam, were created for this purpose Practically all the present-day banking systems of the world were created to assist their governments in one way or another through periods of great emergency, such as wars The First and Second United States Banks were created to handle the emergencies following the Revolutionary War and the War of 1812, respectively. The National Banking System was created during the Civil War, and the Federal Reserve System was organized just before World War I.

The Federal Reserve System was especially designed to assist the federal government in its fiscal operations. The Secretary of the Treasury merely notified the Federal Reserve Board, now the Board of Governors, of the loans to be made, which passed the matter on to the various Federal Reserve Banks and finally on to the member banks where the securities were sold to investors. But this method of fiscal operation proved to be very inflationary during World War I When World War II came, the Secretary of the Treasury took steps to avoid this type of inflation: first, by requiring the banks to invest in short-time loans as much as possible; second, by dealing as much as possible directly with individual and private institution investors; and, third, by making many types of federal securities non-negotiable and non-assignable so that they could not be put up as collateral on private loans The banks nevertheless became heavy investors in government securities during and since World War II During World War II, the banks were encouraged to handle short-time and temporary loans in many ways, chief of which were the privilege of crediting the account of the federal government for bonds received, preference as to loans from Federal Reserve System, exemption from reserve requirements on government war demand deposits, and the promise of the Federal Reserve Banks to buy government bonds in open market in case the commercial banks needed funds to replace depleted reserves.

The extent to which government borrowing has interfered

with commercial loans to business has not been completely explained. Some economists insist that government debts are a boon to business; others think they are a hindrance; but most seem to feel that public debts should be treated as any other debts and should be paid as expeditiously as possible.

The proportion of loans to taxes by the federal government has varied from time to time During ordinary times, the federal government has been able to keep its budget in balance, with substantial surpluses, using its credit only on short-time temporary loans. But during wars, substantial deficits have occurred only to be slowly liquidated after the emergency has passed The recent tendency, as during World War II, has been to keep taxes and borrowings in about equal proportions

State and local debts, and their management, have had a long and interesting history The states contract debts on their own right, but the local units do so only under statutory or constitutional privilege.

Particularly in the last decade, the rapid increase of debts has caused embarrassment to some states and local communities Defaults have been notable among some of the smaller state subdivisions, particularly where borrowed funds have been used for construction purposes, such as drainage and irrigation projects, bridges and, in some cases, highways. The limit of payment is always the capacity of a region for producing revenue — a matter which a state legislature or local council should never forget For one reason or another, even larger communities — some states and cities — have had difficulty in meeting their obligations.

Experience alone can decide what the debt limit is, but that there is such a limit no one can deny If the borrowing authority is to repay borrowed sums, it must take into account dozens of conditions which now, or in the future, may affect the power to raise revenue

TEXT QUESTIONS

1 Describe what is to be found on a government obligation
2. Discuss fully the debt paying capacity of a country
3. What effect would result from vanishing resources?
4 Discuss the relationship between taxes and national income
5. What percentage, according to Professor Bastable, may be taxed from current national income?
6. Describe the percentage of federal debt to national income from 1800 until the World War II.
7. Discuss fully the place of our banking system in government finance
8. What is the affect of the government issuing irredeemable paper currency through the banks upon our economic system?
9. Does the government, when borrowing money, compete with private enterprise for funds?
10 Why aren't the interest rates paid by each the same?
11 What were the opinions of the following people concerning the advantages and disadvantages of public debts
    a) Bishop Berkely
    b) Melon
    c) Isaac Pinto
    d) Alexander Hamilton
    e) Jay Cooke
    f) Adam Smith
12 How was a sinking fund to be used to extinguish the national debt?
13 In general what are the main reasons for state borrowing? for cities?
14 In what way does the local municipality differ from the state and federal governments as to the limitation of credit?
15. In what way does government, particularly state and local governments, act in much the same manner as a private entrepreneur?
16. How does the borrowing rate influence the government?
17 Discuss the growth of state debts in the first half of the Nineteenth Century.
18. What was the effect of the panic of 1837?
19 Trace the per capita debt of state and local governments from 1902 to 1942.
20 What has been the trend in the rendering of services by government?
21 What new services are expected of the government today?
22. What new services are now in the form of proposals to Congress?

APPLICATION PROBLEMS

1. As of April 1949 the federal debt was about $252 billions and interest on the debt at the rate of about 2 per cent. The annual national income was about $220 billions. The total of federal, state, and local budgets for the 1950 fiscal year was about $65 billions Do you believe that federal debt to be excessive or dangerous to the economy? Do you think it would be advisable in such a situation for the state or federal governments, or both, to go on a pay-as-you-go basis to avoid further borrowing?

2. Can you present a mathematical demonstration of the use of a sinking fund as an automatic self-liquidating methods of public debt payment? Can you demonstrate the impracticability of such method? Is this the main reason why the sinking fund method of liquidation of public debts is not popular and more generally used by about all levels of government?

RESEARCH TOPICS

1. In recent years, the federal government has been making many loans to business concerns and individuals through such federal agencies as the FHA, CCC, RFC, and Federal Land Banks To what extent have these loans been in competition with private finance institutions in your immediate community? What is their feeling about such government competition? Do you believe that such competition is healthy, beneficial and justified?

2. The purposes for which loans are made vary with federal, state, and local governments. Make a study of these various purposes during the past several years. What conclusions can you draw?

3. Make a study of current debt management by your state and local unit Note especially the timing of loans, the interest rate, purposes for which made, provisions for payment, ratio of loans to taxes and property valuation What provisions does your state make in regard to the handling of surpluses?

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PART IV

BASES OF TAXATION

CHAPTER 17

BASIC LEGAL PRINCIPLES OF TAXATION

The dual character of sovereignty between the federal and state governments has greatly complicated the basic legal principles of taxation in the United States.[1] Each state, as well as the federal government, has plenary power to impose taxes, with the result that these two tax systems are frequently in conflict The local units of government can exercise the power of taxation only under constitutional and statutory authority as granted by the state of which they are subunits Space will permit discussion in this chapter of only the general principles of the law as they apply to the power to tax Specialized parts of the law of taxation, such as income taxes, general property taxes and other forms of public revenue are discussed elsewhere in appropriate places throughout the text as they have their specific application

The entire taxing process is vested in the lawmaking bodies of the states and of the federal government, all other units of government in the United States have designated fiscal powers The executive departments administer the tax laws; the judiciary interprets them, but only the legislative branches have the constitutional power to provide for a system of taxation. The whole fiscal framework of property valuation, tax levy, rates, exemptions, brackets, classification, collection, and appropriation is therefore created and defined by statute and by certain provisions in the constitution

In the last few years, the federal and state courts have changed their points of view in regard to many previously well established rules of tax law; in some instances, they have merely clarified and made those rules more explicit. The interpretation of the United States Constitution, in so far as tax immunity and authority to tax is concerned, is still something of a controversial issue The controversy over the distinctions between inter- and intra-state commerce, the definition of the police power and of what is a public purpose, have bearing on the authority to tax. In fact, the

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[1]In regard to division of powers of sovereignty between the federal government and the states, see McCullough v Maryland, 4 Wheaton 316, 410 (1819), Bailey v. Drexel Furniture Co , 42 S. Ct 449 (1922)

Note As a rule, to make the footnotes as brief as possible, only one citation of the highest court will be given for each decision

economic emergency after the beginning of the great depression in 1929 forced the reexamination by both the federal and state courts of the general tax authority. The tax power may be used as an instrument to control the whole economy, and as a means to effect more equitable distribution of wealth. These technical aspects of tax law will be discussed in this chapter and also to some extent in later chapters on taxation

General Nature of Taxation. The power to tax is a *sine qua non* of sovereignty, and is inherent in and created with the state. It is possessed by the state as a natural right without being expressly conferred by the people; but it is not inalienable; it is subject to limitation. This sovereign power to tax may be waived, altered, amended or abolished by proper constitutional and statutory methods. As Justice Peckham says, "The power to tax is the one great power upon which the whole national fabric is based. It is as necessary to the existence and prosperity of a nation as is the air he breathes to the natural man. It is not only the power to destroy, but is also the power to keep alive "[2]

A tax may be defined as any burden, pecuniary charge, or imposition which the state imposes for public purpose upon persons or property within its jurisdiction. The United States Supreme Court defines a tax as "A contribution of the individual for the support of the government or to meet public expenditures which have been authorized by the government in return for which the individual receives compensation in the protection which the government affords or in benefits derived from the special expenditure."[3] In a practical sense, a tax is therefore the enforced proportionate contribution of persons and property levied for public purposes to enable their government to discharge its functions, duties, and obligations.[4] The whole fiscal process of taxation includes the imposition and levy upon persons and property as well as the proper methods of collection and spending of those funds for public purposes The term "public purpose" in connection with the process of taxation is important because it is only upon this ground that a tax may be legally imposed.

Because of its being a contribution enforced by the sovereign power of the state as a burden or charge on persons or property

[2]Nicol v. Ames, 19 S Ct 522 (1899).

[3]Mobile County v Kimball, 102 U. S. 691 (1881).

[4]In re Farrell *et al.*, 211 Fed. 212 (1914); McCord Mercantile Co. v. McIntyre, 25 Colo App. 276 (1914); United States v Baltimore & Ohio R. R. Co., 17 Wall. 322 (1926); Mobile Co. v Kimball, 102 U. S 691 (1881).

for public purposes, the courts have universally held that a tax is not a debt,[5] although it is collected in some states on this basis [6] In case of default by the tax payer, the government usually enforces its claim by judicial process through judgment, writs of levy, execution, and public sale. Most tax collectors have the right of seizure and sale of property to collect delinquent taxes

The individual, and not his property, pays the tax [7] A tax is therefore primarily a claim upon the individual and not a property obligation. As between the taxpayer and his state, there is no *quid pro quo* or *do ut facias* understanding or other agreement, either directly or indirectly The power to tax being a sovereign right of the state, there is no element of contract between the individual and his government in such levy.[8] There is no guaranty by the state that the taxpayer will receive an equivalent or any return for his particular tax contribution, and the fact that some individuals or property are benefited in varying degrees is no valid objection to the obligation.[9] The individual owes these contributions to his government because he is a member of an organized society, and while he personally may or may not receive an equivalent return for his contribution, yet the political group as a whole, of which he is a member, should have value received for the total sum paid in taxation. Therefore, the evaluation of a particular system of taxes is its total benefit conferred upon the entire political group rather than upon any individual or small group of individuals

Perhaps the most fundamental general principles of taxation are that the people who pay taxes imposed by law are entitled to (1) a voice in the choice of those who draft and enforce tax legislation, (2) assurance that all such contributions to the state shall be used for public purposes only, and (3) participation in the general benefits arising out of such public expenditures But it does not necessarily follow that no person, whether resident or non-resident, shall be taxed unless he is represented by someone for whom he has actually voted, or that his property is not subject to levy

[5] Meriwether v Garrett, 102 U S 472 (1880), Loeber v Leininger, 175 Ill. 484 (1898)

[6] Gautier v Ditmar, 204 N Y 20 (1912)

[7] Green *et al.* v Craft, 28 Miss 70 (1854), State v Camp Sing, 18 Mont 128 (1896)

[8] Crabtree *et al* v Madden, 54 Fed 426 (1893); Pierce v City of Boston, 44 Mass (3 Metc) 520 (1842).

[9] Union Refrigerator Transit Co v Commonwealth of Kentucky, 199 U. S. 194 (1905).

unless he can point to some definite personal benefit derived. The courts have held in many cases that a franchise, personal allegiance, or individual benefit are not conditions precedent to the legal obligation to pay taxes. It is on this ground that aliens, as well as certain citizens, such as minors and other persons who do not have the right of franchise, may be taxed. It is also settled law that the property, both real and personal, of non-residents, may be taxed by the state in which it is situated [10]

Public Purpose and Use. Under the Constitution of the United States, the general rule is that unless forbidden by express or implied constitutional provision the federal and state governments may enact tax legislation under two sovereign powers — the tax power and the police power, both of which are inherent and subject to the following inherent limitations: first, revenue must be used for public purposes; second, persons or property must be within the jurisdiction of the taxing unit; and, third, the tax evaluation must be reasonably apportioned among the persons or property subject to the tax.

No state can levy and collect any tax unless the proceeds are to be used for public purpose [11] If the tax is levied for a private purpose, it amounts to the taking of property without due process of law, and such imposition may be attacked in the courts on the ground that it is in violation of the Fifth or Fourteenth Amendments of the Constitution of the United States [12] This same legal principle also holds true for public debts, if they are not incurred for public purposes, such obligations are null and void and unenforceable, since they must ultimately be liquidated by means of funds raised through taxation

It is not always easy to determine just when a tax or an appropriation is for public or private purposes, such determination is entirely a matter for the courts to decide In general, each is affected with a public purpose when the proceeds are to be used for the support of necessary and useful functions or services of the

[10] Thomas *et al* v Gay *et al*, 169 U S 264 (1896).

[11] St. Paul Trust & Savings Bank *et al* v. American Clearing Co *et al*, 291 Fed 212 (1923), judgment affirmed in Citizens' Savings Bank & Trust Co of Hamilton, Ohio, St Paul Trust & Savings Bank, *et al*, 10 Fed (2d) 1017 (1926) See also Robbins v Kadyk, 312 Ill 290 (1924), and State v. Clausen, 113 Wash 570 (1921), Sharpless v. Mayor, 21 Pa 147 (1853), 59 Am. Dec 759 (1853)

[12] Robbins v Kadyk, 312 Ill. 290 (1924), Milheim *et al.* v Moffat Tunnel Improvement Dist. *et al.*, 72 Colo 268 (1922); Kinney v City of Astoria, 108 Ore 514 (1923), also see 17 Yale Law Jour 162, and 18 Calif. Law Rev 137, 241

government In deciding whether such purpose is public or private, the courts are influenced by past, current and future customs and usages. They are guided by the existing course and usage of the government, the objects for which taxes and appropriations have been levied customarily and by long course of legislation, and what objects have been considered necessary to the support and for the proper use of the state The courts take into consideration that customs, usages and conditions change in the course of time so that a purpose which was concededly private a decade ago may later be public and one that is private today may be public at some future date [13]

Jurisdiction. Assuming that the particular unit of government has the power to tax, the next question is does it have jurisdiction over the person or thing to be taxed? In most cases this is not a difficult matter to decide, and it is always a question for the courts [14]

In the case of realty or immovables, the situs generally determines tax jurisdiction, or the *lex rei sitae*, the state or local unit in which land lies has jurisdiction for tax purposes In general, in the United States, the legislatures of a state cannot legislate on any matters pertaining to realty which lies in another jurisdiction because of its immovable nature. In the case of personal property, the common law held to the rule of *mobilia sequuntur personam* which was largely a legal fiction. It supported the rule that personalty followed the domicile of the owner, and was there taxable. But many states began taxing personalty according to situs on the ground that the power of the state to tax extends to all objects within its jurisdiction, and other states taxed it according to the domicile of its owner under the common law rule, which led to all the evils of double taxation

The more recent tendency in regard to taxation of personalty is to apply the rule of situs to avoid the inequity of double taxation This same rule applies to such intangibles as money, credit, choses in action, mortgages and to proprietary ownership in business enterprises.

Taxation for Specific Purposes. Fine distinctions have been drawn by the courts in numerous instances in regard to the use

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[13]Hagler v Small *et al*, 307 Ill 460 (1923), see also Loan Association v Topeka, 20 Wall 87 (1874), Stevenson v Port of Portland, 82 Ore 576 (1917)

[14]McCulloch v Maryland, 4 Wheat 316 (1819)

of funds for particular purposes, which have been derived from taxation, but only a few special cases will be considered here.

It is obvious that money may validly be collected and expended by the state for the erection of public buildings, for schools and other public institutions, and for the employment of personnel to carry on the affairs of government. State eleemosynary and educational institutions and universities may be supported by public funds, on the ground that this money is being put to public purpose, while, on the other hand, it has been held by the courts that appropriations may not be made for scholarships, or otherwise for the support of students in public schools. Some states have specific constitutional provisions prohibiting expenditure of public funds for religious purposes. For example, the Constitution of Indiana states: "No money shall be drawn from the Treasury for the benefit of any religious or theological institution." The federal government is also barred from the use of public funds for religious purposes by the First Amendment which says, "Congress shall make no laws respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the government for redress of grievances."[14] But a distinction has been drawn by the courts between relief for the poor, aid and hospitalization of the sick, on the one hand, and assistance to those whose means of livelihood have been affected by public calamity, such as fire, flood or cyclone; although in the last few years these subtleties have been largely swept away. As will be explained later, the right of the state to levy and expend money for the health, comfort, safety, and prosperity of the community is a legitimate function of government, and may be founded upon the police power,[15] hence, the constitutionality of Social Security and many other so-called New Deal agencies

In regard to the investment of public funds in the field of competitive enterprise, distinction must be made between industries that are purely private and conducted wholly for profit, and those that are affected with public interest It is often a question

[14]See Everson v. Board of Education of Ewing Tp. *et al*, 67 S Ct 504 (1946), People of State of Illinois in rel. McCullom v. Board of Education, 68 S Ct 461 (1947).

[15]See Green v Jones, 164 Ark 118 (1924), Orr v Allen *et al.*, 245 Fed. 486 (1917), decree affirmed in 248 U. S. 35 (1918); Deal v Mississippi County, 107 Mo. 464 (1891); in re Opinion of Justices, 231 Mass 603 (1918–1919), Cobbs v Home Ins. Co of N Y, 91 So 922 (1921), *certiorari* denied in Ex Parte Home Ins. Co. of N. Y., 207 Ala. 712 (1921)

of how far the state should enter into competition with private enterprise. It has been held that funds raised by taxation cannot be used by the state to engage in a private business merely for profit; but it is well established that public money may be appropriated for the purpose of furnishing the population with certain necessaries, such as water, gas, light, and transportation The chief distinction seems to turn upon the proposition of whether or not the individual is able to furnish such necessary facilities without a state franchise If the purpose to which funds raised by taxation are being put is essential to the public good, even though carrying some private benefit, in general the courts have refused to invalidate such expenditures [16] In general, money raised by means of taxation must not only be put to some public use, but it must also be expended at least in part in the district where levied [17] This principle does not mean that the contributing district must enjoy the whole benefit A municipality, for example, may be taxed to construct and maintain highways which lie adjacent to, but outside its corporate limits,[18] on the ground, that it is indispensable that the city have free access to outside markets

General Tax Powers of the Federal Government. In general, under the doctrine and definition of sovereignty, it seems that statutes and constitutions are more in the nature of restrictions or limitations on the power of the federal government and of the states to tax than a grant of authority. In this regard, the United States Supreme Court held:

> Unless restrained by constitutional provision, the sovereign (state) has power to tax all persons and property actually within its jurisdiction and enjoying the benefit and protection of its laws [19]

Federal restrictions on state taxing power relate to (1) interstate and foreign commerce; (2) obligations of contracts; (3) import or export duties, (4) tonnage duties and interstate compacts, (5) full faith and credit to acts, records and judicial proceedings of other states; (6) privileges and immunities accorded to citizens

[16] See Hagler v. Small *et al*, 307 Ill. 460 (1923); Sun Publishing Assn *et al*, v Mayor of the City of New York *et al*, 152 N Y 257 (1897), St Paul Trust and Savings Bank v. American Clearing Co., 291 Fed 212 (1923).

[17] Keith v Lockhart *et al*, 171 N C 451 (1916), see Duffy *et al.*, v. Burrill, 234 Mass 42 (1919), Dane v Burrill, 41 S. Ct. 447 (1921), Dane v Treasurer and Receiver General, 236 Mass 280 (1920), Faison *et al*, V Board of Com'rs. of Duplin County, 171 N C 411 (1916)

[18] Town of Keene v. Town of Roxbury, 81 N H 332 (1924)

[19] Haavik v. Alaska Packers' Assn, 263 U S. 510 (1924).

of other states, (7) due process and equal protection of the laws; (8) transportation of intoxicating liquors; and (9) federal instrumentalities and obligations.

Since the federal government possesses only delegated authority, its powers to levy and collect taxes must be found in the expressed and implied powers of the Constitution of the United States. Article I, Section 8, of the Constitution gives Congress the express power "to lay and collect taxes, duties, imposts and excises to pay the debts and provide for the common defense and general welfare of the United States" But this article is in the nature of a limitation on the purpose for which the taxing power may be exercised rather than a grant of authority It seems that this provision of the Constitution gives the federal government through Congress the power to lay and collect taxes, imposts and excises for the general welfare, as restrained by further constitutional or statutory provision [20] This power also includes the right of the federal government to levy general property taxes, which it has attempted to do on some five occasions.

Federal Use of Tax Power for Regulation. The original and primary purpose of taxation was to furnish revenue to the government, and the extent to which this power may be used as control has always been a legal question A tax may occupy the dual purpose as a source of revenue and of control. The federal government has no inherent police power under the Constitution similar to that of the various states, although under the broad powers of taxation, many specific regulations on trade and manufacturing are imposed [21] For example, in the Act of March 3, 1865, Congress imposed a 10 per cent tax on state bank notes,[22] which effectively drove them out of circulation. The admitted purpose of this tax was to secure a monopoly of note issues to the National Banks Congress also taxed out of existence the sale of shot guns with barrels under eighteen inches long and of narcotics, and it has been suggested that the sale and use of alcoholic beverages could be better controlled by the power of taxation than by a constitutional amendment Congress also imposed a tax of ten cents a pound on colored butter substitutes sold in interstate commerce

[20]See Knowlton v Moore, 20 S Ct 747 (1900)

[21]Alexander Theatre Ticket Office v. The United States, 23 Fed (2d) 44 (1927), see McKenna v. Anderson, 31 Fed (2d) 1016 (1929)

[22]The constitutionality of this tax was sustained in Veazie Bank v Fenno, 8 Wall 533 (1869)

The taxpayers contended that this levy was excessive, but it was held that the discretion of Congress in its constitutional powers to impose excise taxes could not be controlled or limited by the courts because the latter might deem their incidence oppressive or even destructive Granted the primary authority, Congress, in selecting the subject for taxation, might impose the burden as it saw fit, and a motive disclosed in the selection to discourage the sale or manufacture of an article through a higher tax than on some other article does not invalidate the levy [23]

Congress, on two occasions (1916 and 1919), attempted to regulate child labor by means of the taxing power, but, in both instances, the statutes were invalidated by the United States Supreme Court on the ground that it was not a proper exercise of authority as conferred by Article I, Section 8, or that it was a violation of the Tenth Amendment, which was a trespass upon the rights of the state, or the due process and freedom of contract clauses of the Constitution of the United States.[24]

In the Drexel Furniture case, the Federal Child Labor Tax Law imposed a tax of 10 per cent of the income of persons employing child labor under 14 years of age. The Drexel Company, after it was assessed by Bailey, United States collector of internal revenue, paid the tax and filed protest on the ground that the law was unconstitutional In this case, Chief Justice Taft, speaking for the United States Supreme Court said:

> ". The law is attacked on the ground that it is a regulation of the employment of child labor in the States — an exclusively state function under the Federal Constitution and within the reservations of the Tenth Amendment. It is defended on the ground that it is a mere excise tax levied by Congress of the United States under the broad power of taxation conferred by Section 8, Article I, of the Federal Constitution."

In the same opinion, Chief Justice Taft cited with approval Hammer v Dagenhart, a previous and similar case, where the Court said:

> "In our view the necessary effect of the Act is, by means of a prohibition against the movement in interstate commerce of

[23] McCray v. United States, 195 U. S 27 (1904)

[24] Bailey v. Drexel Furniture Co , 259 U S. 20 (1922), Hammer v. Dagenhart, *et al* , 247 U. S 251 (1918), Also see 35 Harvard Law Rev 859; 8 Cornell Law Quar. 380, and 31 Yale Law Jour. 310; 40 Stat 1057 for the Child Labor Tax Law, passed February 24, 1919

Note The fact that the Dagenhart case was specifically overruled by the Supreme Court in West Coast Hotel Co v. Parrish, 57 S Ct 578 (1936) does not alter this general holding

ordinary commercial commodities, to regulate the hours of labor of children in factories and mines within the states, a purely state authority"

Accordingly both acts of Congress of 1916 and 1919 to regulate child labor under the tax power were held to be unconstitutional as invading states' rights.

The Constitution of the United States provides for direct and indirect taxes, and lays down rules by which their imposition must be governed[25] Article I, Section 9, states that "no capitation or other direct tax shall be laid, unless in proportion to the census or enumeration hereinbefore directed to be taken." Article I, Section 1 provides that direct taxes "shall be apportioned among the several states which shall be included within this union according to their respective numbers." Article I, Section 8, states that "all duties, imposts and excises shall be uniform throughout the United States"

The Constitution of the United States therefore provides that all direct taxes shall be apportioned among the several states in accordance with their respective population, and that the rates of all indirect levies must be uniform Direct taxes are therefore not levied by the United States Government in accordance with any property-valuation rule, but according to the rule of apportionment Because of this fact they have never been popular The less property there is in the state, the higher the rate might have to be, because the amount collected would have to be fixed according to a basis of population Such sums would have to be raised by an internal levy on all property within the jurisdiction of the state The federal government attempted to impose direct taxes on personalty and realty among the several states in 1798, 1813, 1815, 1816, and during the Civil War, but the results were so highly unsatisfactory that it is doubtful if this means of raising revenue will ever be used again. Prior to the Civil War, direct taxes were levied on lands, improvements, and dwelling houses Until the income tax amendment in 1913, the sources of revenue to the United States Government were almost exclusively those of duties, imposts, and excises.

The constitutional requirement that all duties, imposts, and excise rates shall be uniform through the United States is purely geographical in its application "Uniform" means that the rate

[25]Pollock v Farmers' Loan & Trust Co, 15 S Ct. 673 (1895), affirmed on rehearing in 158 U S. 601 (1895)

only on indirect taxes need be the same throughout the territorial limits of the United States, and does not refer to the amount collected Speaking on this question Justice Field in the Pollock case said.

> ". . the tax levied cannot be one sum upon an article at one place, and a different sum upon the same article at another place The duty received must be the same at all places throughout the United States, proportioned to the quantity of the article disposed of, or the extent of the business done If, for instance, one kind of wine or grain or produce has a certain duty laid upon it, proportioned to its quantity, in New York, it must have a like duty, proportioned to its quantity, when imported at Charleston or San Francisco; or if a tax be levied upon a certain kind of business, proportioned to its extent, at one place, it must be a like tax on the same kind of business, proportioned to its extent, at another place In that sense, the duty must be uniform throughout the United States."[26]

There are no problems of property valuation in the case of indirect taxes; it is only a question of uniform rate collection. It is, however, always an open question whether a given tax is direct or indirect, which again is a question for the courts to decide. In the case of the income tax, the court early held that it was a direct levy; hence, the Sixteenth Amendment was adopted in 1913 to allow it to be collected at a uniform rate from every citizen rather than to apportion it among the states on a population basis.

Article I, Section 10, of the federal Constitution provides that "no state shall, without the consent of the Congress, lay any impost or duties on imports or exports, except what may be absolutely necessary for executing its inspection laws"

Under this Article, it has been judicially determined that imported goods preserve their character as imports and are not subject to state taxation as long as they remain unsold in the original package.[27]

The federal Constitution, Article I, Section 9, forbids the imposition of any obstruction, whether by tax or otherwise, on exports of goods from any state, but this provision has been held to apply only on shipments that are in foreign commerce. Because of the political entity or partial sovereignty enjoyed by the several states, the federal government cannot validly tax the

[26]Op Cit.

[27]Low *et al*, v. Austin, 13 Wall. 29 (1871), Gelpi v Schenck, 21 So. 115 (1896), also see 33 Yale Law Jour. 321, 37 Harvard Law Rev 157

means or agencies through which they perform their functions. However, such matters as salaries of state employees have become subject to federal taxation.[28]

Taxation and the Commerce Clause. The commerce clause, Article 1, Section 8, of the federal Constitution, says that "The Congress shall have power — To regulate commerce with foreign nations, and among the several States and with the Indian tribes."

When this clause was written in the federal Constitution, the distinction between inter- and intra-state commerce seemed so clear to the framers as to defy confusion and controversy; yet, after almost a hundred and sixty years complete definition of and distinction between these two aspects of commerce have not been made In general, the federal government has complete jurisdiction over inter-state commerce, while the states have control over trade and commerce that arise and extend within their own borders. But since many cases arise which are not clearly either one or the other, the respective jurisdictions of the federal and state governments are frequently in conflict; and the power of these two units of government to tax has frequently furnished one of the most prolific sources of controversy

Perhaps the first great tax case to arise under this clause in conflict between the states and the federal government was Brown v State of Maryland.[29] This case arose out of an act by the legislature of Maryland, passed in 1821, requiring all importers of foreign goods to take out a state license for which a fee of $50 was charged Brown, an importer, refused to take out a license and was sued by the State of Maryland. He claimed that the act was repugnant to the commerce clause and was therefore unconstitutional for the following reasons

1 "No state shall, without the consent of Congress, lay any imposts, or duties on imports or exports, except what may be absolutely necessary for executing its inspection laws."
2 Congress shall have power "to regulate commerce with foreign nations, and among the several states, and with the Indian Tribes."

Chief Justice Marshall wrote the opinion. After stating that the Constitution of the United States was the supreme law of the

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[28]Frey v. Woodworth, 2 Fed (2d) 725 (1924), see also 31 Harvard Law Rev 321; 32 Harvard Law Rev 234; 76 University of Pennsylvania Law Rev 608.

[29]Brown v State of Maryland, 12 Wheat 419 (1827)

land, and that Congress had complete jurisdiction over inter-state commerce, he held that the act of the State of Maryland had put an undue burden on the entry of goods into the United States. He further held that even after these imports had entered the country and while still in their *"original package"* they were not subject to state levies

Another great case to arise later under this general Constitutional provision is F. May & Company v City of New Orleans.[30] This case was important because the chief point at issue was a more extended definition of the term "original package"

In this case, the F. May and Company brought the action to restrain the City of New Orleans from collecting a property tax upon merchandise brought into the city from Europe The Company had imported some 500 dozen boxes of towels packed and shipped in one large carton. The question was whether the "original package" was the outside shipping crate, or each individual box in which the articles were packed The Court held that the outside shipping crate was the original package and when it was broken the contents thereby became mixed with the other property of the owners and were taxable by the city

Federal Excise Taxes. The Constitution of the United States, in Article I, Section 8, gives Congress the specific power to levy excise taxes According to the 1949 federal budget, pages A 11 and A 12, Congress provided for a host of federal excise taxes on such items as unjust enrichment, liquor, tobacco, manufactured articles, retailers' items, and miscellaneous items, which yielded the total amount of $7,270,474,741 for the budget year ended June 30, 1947 The first excise taxes to be levied by the federal government were on liquor and tobacco Later were added excise taxes on manufacturers, retailers, and a long list of miscellaneous items The unjust enrichment taxes are temporary levies to recover the old processing taxes which could not be otherwise retained after the Agricultural Adjustment Act was declared unconstitutional

The United States Supreme Court, in a very famous case, defined the excise tax as "A tax imposed upon the performance of an act, the engaging in an occupation, or the enjoyment of a privilege"[31] An excise tax is therefore a levy upon the doing and enjoying of an act or article rather than upon the property itself.

[30]20 S Ct 976 (1900)
[31]Lutz v Arnold, 208 Ind 480 (1935)

Perhaps one of the most extensive uses to which the federal government has made of excise taxes was in regard to the enforcement of pure food statutes. For example, on March 1, 1886,[32] an excise tax was levied on the sale of oleomargarine. On June 6, 1896,[33] a similar excise tax was levied on the sale of adulterated cheese. Again, on May 9, 1902, Congress exempted the sale of oleomargarine in interstate commerce from the "original package" Act which in legal effect over-ruled a Supreme Court decision invalidating a Pennsylvania statute aimed at complete prohibition of the sale of oleomargarine.[34]

The first excise levy in 1886 by the federal government on oleomargarine was 2 cents per pound, later raised in 1902 to 10 cents per pound, which made its manufacture and sale prohibitive. In 1904, McCray, a dealer in oleomargarine, resisted this tax and license required of manufacturers and dealers and brought an action against the United States Government alleging that such tax and regulation were unconstitutional, in violation of the 5th and 14th Amendments.[35] But the Supreme Court held, Justice White speaking, that the manufacture of artificially colored butter substitutes may be prohibited by a free government without a violation of fundamental rights.

When general prices began their rapid ascent after the O.P.A was liquidated the latter part of 1946, and butter rose so rapidly in price, the public consumer began demanding that the federal excise tax on oleomargarine be removed The taxes were:

1. Ten cents a pound on the manufacturers if it is colored;
2. One-fourth cent a pound on manufacturers if it is uncolored;
3. $600 a year license fee on the manufacturers.
4. $480 a year license fee on wholesaler if his product is colored; $200 if uncolored
5. $48 a year license fee on retailer if his product is colored; $6.00 if uncolored.

But the bills before Congress in the 1948 Session to repeal all federal licenses and license taxes on oleomargarine failed to become law, and the above tax and license schedules remained in effect.[36]

[32] 24 Stat. 209, U. S. Code, Title 26, C. 9

[33] 29 Stat 253.

[34] 32 Stat. 193, also see Schollenberger v. Pennsylvania, 171 U. S 1 (1902)

[35] McCray v. United States, 24 S Ct. 769 (1904).

[36] The States also have numerous excise taxes, of one kind or another. About half of them prohibit the sale of oleomargarine. The other half tax its sale and manufacture very severely. In 1948, in sympathy with the public demand to remove certain excises, six States repealed all such taxes on the manufacture and sale of oleomargarine.

The federal government has also used the excise tax very extensively in other ways. In Stewart Machine Company v. Davis,[37] the United States Supreme Court upheld Titles III and IX of the Social Security Act. Title IX of the Act provides for an excise tax, the proceeds of which are to be paid into the Unemployment Trust Fund to be kept by the United States Treasury. Title III authorizes Congress to make appropriations to the States to assist them in administration of their Unemployment Compensation Laws. The Stewart Machine Company, a corporation under the laws of Alabama, paid the tax and asked for a refund on the ground that the tax was not an excise; that its purpose was not revenue, but an unlawful invasion of the reserved powers of the State; and that it coerced the States in contravention of the 10th Amendment

The Supreme Court refused to hold the tax section of the Social Security Act unconstitutional, saying that the Act does not in any way coerce the States in violation of the 10th Amendment; and that it does not unduly enter the reserved power of the States The Court said that the State is free, without breach of agreement, to change its system at any time it so desires.

In the United States v. Butler[38] case, it was held that the federal government had made an improper use of its tax power in laying the excise processing tax

In 1933, Congress had provided the Agricultural Adjustment Act to improve the economic situation of the farmer The Secretary of Agriculture was authorized to enter into contracts with farmers in which they agreed to reduce their production. He was also authorized to levy an excise tax on processors of agricultural products, such as slaughterers of animals and millers of grain, to compensate the farmers for their reduced production The Hosach Mills, through its receiver Butler, attempted to enjoin the federal collection of such excise tax on the ground that the AAA was unconstitutional

The United States Supreme Court held the AAA unconstitutional on two grounds: first, it invaded the reserved powers of the States to regulate agriculture, and, second, the Act was also an invalid exercise of the federal taxing and spending powers under the general welfare clause

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[37]Stewart Machine Company v Davis, 57 S. Ct 883 (1937)
[38]United States v Butler, 563 S Ct 312 (1936).

The Carter v Carter Coal Company[39] case concerned the constitutionality of the Bituminous Coal Conservation Act of 1935 This Act provided an excise tax of 15 per cent upon the sale and other disposal of all bituminous coal which allowed a 90 per cent drawback if the producer complied with the code of fair competition.

Justice Sutherland, speaking for the Supreme Court in this case, held that this levy was not an excise tax, but a penalty imposed not for revenue, but to compel compliance with the Bituminous Coal Conservation Act of 1935, and therefore unconstitutional. The court held that this was another instance where the federal government had used the tax powers improperly.

General Taxing Powers of States. Restrictions imposed by state constitutions and statutes upon their powers to tax vary among the states. Some of the most common restrictions and provisions are:

(1) Equality and uniformity of taxation,
(2) Taxation according to value,
(3) Limitations on rate or amount of levy,
(4) Double taxation,
(5) Taxation for public purpose only,
(6) Delegation of taxing power

As stated elsewhere, the federal government has been given only such delegated powers to tax as are directly and indirectly prescribed in the United States Constitution. The various states of the Union have residual powers to tax all persons and property within their respective jurisdictions, limited only by the federal Constitution and their own self-imposed laws The states have authority to create municipalities and other internal divisions and units of government, and to give to such local agencies certain express powers of taxation and borrowing money Therefore, in general, the United States Government possesses only delegated powers to tax; the respective states have residual and inherent authority; while all local units of government have only certain designated rights to impose levies

The general relation of the individual to his state is not affected by Article I, Section 10, of the United States Constitution, which provides that "no state shall pass any law impairing the obligation of contract." This provision relates only to private contracts

[39]Carter v. Carter Coal Company, 56 S Ct (1936)

between individuals, or between the state and its citizens, as for instance, the grant of a special franchise or a charter to a corporation.[40] However, there are other contractual relations between the individual and the state that cannot later be repudiated, as where the obligations of a corporation are made non-taxable It has been held, for example, that unless stated specifically to the contrary, a tax imposed on the capital stock of a corporation is not a violation of the contract clause of the Constitution.[41]

The Constitution of the United States, in Article IV, Section 1, provides that "The citizens of each state shall be entitled to all the privileges and immunities of the citizens in the several states." This section has been construed to mean that no state can tax the citizens of another state at a different and higher rate than it imposes upon its own The Fourteenth Amendment to the Constitution, which provides equal protection under the law to the citizens of the United States, affords substantially the same protection against discrimination and lack of uniformity. The fact that a tax has been imposed so high as to destroy the profits of a particular business or even the business itself is no defense against its levy and collection so long as the rate is uniform and applied in like manner to all concerns of a given class In the Alaska Fish Case, the court said. "Even if a tax should destroy a business, it would not be made invalid or require compensation upon that ground alone"[42]

One of the most important limitations upon the right of the state to impose taxes is subject to the treaty making power of the United States By this means, political and economic representatives of foreign nations are not subject to taxation by the state within whose borders they reside. If, however, such a person engages in business for profit, or devotes his property to such uses, he then becomes subject to the usual tax levies.

Property, whether personal or real, belonging to the United States and used for governmental purposes, is not subject to state taxation, unless so made by federal statute[43] A state cannot tax

[40]Dartmouth College v Woodward, 4 Wheaton 518 (1819)

[41]Providence Bank v Billings, 4 Pet (29 U S) 514 (1830) A contract for tax exemption is binding according to its express terms See New Jersey v Wilson, 7 Cranch (11 U S) 164 (1812), and Kehrer v Stewart, 197 U S 60 (1905).

[42]Smith v Mahoney, 22 Ariz 342 (1921), Alaska Fish Co v. Smith, 255 U S 44 (1921).

[43]Irwin v Wright *et al*, 42 S Ct 293 (1922), Lee *et al*, v Osceola, etc District, 45 S. Ct. 620 (1925), United States v Coghlan, 261 Fed 425 (1919)

bonds, treasury notes or other obligations of the United States,[44] and all means, agencies, and instrumentalities of the federal government are entirely exempt,[45] except by its specific permission, which has been granted in many instances

The Constitution of the United States gives to Congress the exclusive power to regulate commerce among the various states of the Union and with foreign nations. It follows, therefore, that no state may tax goods which are being shipped in interstate commerce.[46] The rule of equality and uniformity requires that a tax must fall impartially on all persons and property in the same class. Substantial uniformity is all that is required In general, the equality and uniformity rule applies to property taxes only, in a few states, such as Pennsylvania and Washington, however, income taxes at graduated rates have been held invalid as violating this provision. In the absence of constitutional restriction, the amount of tax that may be validly imposed is limited only by the needs of the government. Therefore, in general, it is no defense against a tax levy merely that its amount is in excess of the net income of the business, or is a trespass upon the capital investment.

The state must also observe the rules of uniformity, and not tax instrumentalities within its own limits engaged in interstate commerce, at a higher rate than is imposed upon any other property Such restriction does not preclude the state from imposing an excise tax on the franchise of a domestic corporation which is engaged in interstate commerce Such a tax is construed as being a charge upon the privilege of existing as a corporation Since a foreign corporation, which is not in the service of the United States or engaged in interstate commerce, may be excluded by a state altogether, it follows that the state may impose any condition it chooses upon the admission of the corporation to do business within the borders of the state

Proper and Improper Use of Tax Power by States. It has already been stated that a state may, in general, levy any tax

[44]Lantz v Hanna *et al*, 111 Kans 461 (1922), Western Automobile Ins. Co. v. Lyons, 112 Kans 384 (1922), East Helena State Bank v Rogers, 73 Mont 210 (1925).

[45]Gillespie v. State of Oklahoma, 42 S Ct. 171 (1922), also see 34 Yale Law Jour. 807; 30 Columbia Law Rev. 900, 30 Columbia Law Rev. 92, Cornell Law Rev. 737.

[46]Under one guise or another, such as "use laws," "sanitary purposes," etc, some states tax movement of interstate commerce; such taxes have been upheld by the Supreme Court

which the federal Constitution has not denied to the states. The exercise of this power by the states is often a matter of conflict with certain constitutional prohibitions and with the federal government, and matters pertaining to interstate commerce are often in dispute.

In State of Minnesota v Blasius,[47] Blasius brought eleven head of cattle into Minnesota from a point outside the state. He placed the cattle in pens until he could decide what he would further do with them. During this waiting period, these cattle were taxed as personal property according to the tax laws of Minnesota. Blasius contended that the tax was invalid becau seit was a levy on cattle in the course of interstate commerce

Chief Justice Hughes, speaking for the Supreme Court, held that the cattle in question had come to *rest* and therefore had become part of the taxable property of the State of Minnesota In this connection he held that, "Where property has come to rest within a state, being held there at the pleasure of the owner, for disposal or use, so that he may dispose of it either within the state, or for shipment elsewhere, as his interest dictates, it is deemed to be a part of the general mass of property within the state and thus subject to its taxing power."

In Wagner v City of Covington,[48] Wagner, a manufacturer of soft drinks in Cincinnati, Ohio, sent a wagon loaded with soft drinks to Covington, Kentucky, for sale and delivery, where they were taxed while yet in his possession. He objected to the tax as being repugnant to the commerce clause of the federal Constitution The United States Supreme Court held that where the business is that of an itinerant merchant such business is subject to local taxation In this case, the Court drew the distinction between drummers and peddlers A peddler is an itinerant merchant who goes from place to place with the goods he sells making immediate deliveries The place of sale is within the state and therefore the goods are not in interstate commerce

In Pullman Company v. Richardson,[49] the Pullman Company, an Illinois corporation, was engaged in operating sleeping and parlor cars on the railroads throughout the United States In levying a gross receipts tax, every service performed within and

[47]State of Minnesota v Blasius, 54 S Ct 34 (1933) Also see Coe v Town of Errol, 6 S. Ct. 475 (1886) where substantially the same principle was upheld.

[48]Wagner v. City of Covington, 251 U S. 95 (1919)

[49]Pullman Company v Richardson, 261 U S 330 (1922)

without the State of California was taken into consideration. The Company paid the tax under protest and then filed claim against the State of California to recover it on the ground that the tax was an interference with interstate commerce.

The United States Supreme Court held that a tax on the act of engaging in interstate commerce, or a tax on the gross receipts therefrom would be a burden or restraint on such commerce, and therefore unconstitutional

The Rule of Equality and Uniformity. The rule of equality and uniformity, found in almost all state constitutions, specifically provides that all taxes shall be levied in an equal and uniform manner, and without discrimination. Unless the state constitution or statute provides otherwise, the requirement of uniformity does not mean that all classes, kinds and types of property must be taxed at the same rate. It has been held that property may be classified for purposes of taxation so long as the grouping is based upon some reasonable ground, so long as there is a well defined economic distinction among the classes and so long as the classification is not unreasonable, capricious, or arbitrary [50] In the Indiana v Jackson case, the United States Supreme Court said:

> The principles which govern the decision of this cause are well settled The power of taxation is fundamental to the very existence of the government of the states The restriction that it shall not be so exercised as to deny to any the equal protection of the laws does not compel the adoption of an iron rule of equal taxation, nor prevent variety or differences in taxation, or discretion in the selection of subject, or the classification for taxation of properties, businesses, trades, callings, or occupations
>
> A very wide discretion must be conceded to the legislative power of the state in the classification of trades, callings, businesses, or occupations which may be subject to special forms of regulation or taxation through an excise or license tax If the selection or classification is neither capricious nor arbitrary, and rests upon some reasonable consideration of deference or policy, there is no denial of the equal protection of the law.
>
> . In view of the numerous distinctions above pointed out between the business of a chain store and other types of store, we cannot pronounce the classification made by the statute to be arbitrary and unreasonable [51]

[50] State Board of Tax Com'rs of Indiana v Jackson, 283 U S 527 (1931)
[51] 51 S. Ct 540, 543-544 (1931)

Jackson, in the Indiana case, contended that he was being taxed in violation of the Fourteenth Amendment of the federal Constitution which states that property must not be taken without due process of law. The Fourteenth and Fifth Amendments are similar in substance, and under the latter the Supreme Court has sustained the power to tax when the levy was not made arbitrarily, unreasonably, or capriciously. The constitutional right of the state legislature to classify property for taxation purposes falls under the same general rule The Indiana statute classifying property for taxation was therefore constitutional

Tax Immunity. Perhaps there is no question in tax law which has been more productive of controversy than that of immunity of property, of individuals, of income, or of governments from taxation The United States Supreme Court has shown a tendency to restrict the protection once given to interstate business against heavy taxation by states The old rule that states cannot impose tax burdens on goods that move in interstate commerce has been weakened in three decisions These decisions of the Supreme Court involve state property taxes on commercial air lines — a relatively new field in taxation, sales and use taxes, and gross income taxes on goods that moved across state boundaries

In a case involving the Northwest Airlines, Inc ,[52] the United States Supreme Court held that Minnesota could levy personal property taxes on the full value of the entire fleet of the company's planes, even though these planes were based in the state only part of the time throughout the year The Northwest Airlines operated a large fleet of planes out of St. Paul as the home port All the planes were operated in interstate commerce on fixed routes carrying persons, property and mail, predominantly within the territory comprising Illinois, Minnesota, North Dakota, Montana, Oregon, Wisconsin, and Washington. All the planes, from time to time during the tax year, were within the home state of Minnesota The question was whether the "commerce clause" or the "due process clause" of the Fourteenth Amendment barred the state of Minnesota from enforcing the personal property tax which it had laid on the entire fleet of airplanes owned by the Northwest Airlines, Inc., and operated in interstate commerce.

The Supreme Court held that the state of domicile has jurisdiction to tax personal property of its corporations unless the

[52]Northwest Airlines, Inc v State of Minnesota, 64 S Ct 950 (1944)

property has acquired a permanent location, or taxing situs, elsewhere. Therefore, since these airplanes operating in interstate commerce had their principal place of business in Minnesota and all were in the home port of St Paul from time to time during the tax year, the state's personal property tax on the entire fleet did not violate the commerce clause or deny "due process of law."

Justice Jackson, in a separate concurring opinion, reached the same conclusion by a slightly different route He contended that Minnesota, as the "home port" of the fleet, should have the *exclusive* right to tax the planes Justice Frankfurter, speaking for the majority, however, did not close the door that would allow other states also to tax the same planes

The dissent, written by Chief Justice Stone, split with the majority on this point. The Chief Justice contended that the majority threatened to open the door to ruinous taxation of air lines by states. Instead, the minority would tax air line property as states now tax railroad and communications property, that is, by apportioning the levies among the various states in which the utility systems operate But this might be a very difficult formula to apply in the case of such movable property

The power of a state to collect use taxes from an out-of-state company that does business within the state was upheld in General Trading Company v. State Tax Commission of Iowa,[53] in a decision by the United States Supreme Court. The General Trading Company, a Minnesota corporation, sent its traveling salesmen into Iowa to sell at retail its products to be consumed in the state The Trading Company had no place of business or agents located in Iowa The question presented was whether Iowa could, under circumstances of this case, collect a use tax from the General Trading Company on property sent by it from Minnesota to purchasers in Iowa.

The Iowa Use Tax Law imposes a tax of 2 per cent on all tangible personal property purchased for use within the state The United States Supreme Court, Justice Frankfurter speaking, held that the imposition and collection of such use tax was within the power of the state of Iowa, partly on the ground that, in effect, the Trading Company was a retailer within the state, and partly that a state has authority to impose reasonable taxes for its own support.

[53]64 S. Ct 1028 (1944) Also see Nelson v Sears, Roebuck & Company, 61 S. Ct. 586 (1941), and Nelson v Montgomery Ward & Company, 61 S. Ct 593 (1941).

In McLeod v. J. E. Delworth Company,[54] the United States Supreme Court drew a sharp distinction between the authority of a state to levy and collect sales taxes and to levy and collect use taxes on businesses that are engaged in interstate commerce.

In this case, the Delworth Company was a corporation organized under the laws of Tennessee. It sold in commerce its machinery and well supplies in Arkansas, on orders coming from purchasers. Under its Retail Sales Tax Act of 1937, the State of Arkansas levied a sales tax, which the Delworth Company contested as an unconstitutional burden on interstate commerce. Justice Frankfurter, speaking for the Court, said that while the sales and use taxes might be used to accomplish the same purpose in the end, yet their legality must not be confused They are different in conception, and their assessments are upon different transactions. A sales tax is a tax on the freedom of purchase. A use tax is a tax on the enjoyment of that which was purchased Based upon this distinction the Justice concluded that the sales tax in question involved an assumption of power by the state of Arkansas which the commerce clause was meant to end, and was therefore unconstitutional.

A fourth case, decided by the United States Supreme Court, was the International Harvester Company v. Indiana,[55] in which it was held that the Indiana Gross Income Tax Act, as applied to sales by foreign corporations authorized to do business in the state, did not offend the commerce clause or the Fourteenth Amendment.

The International Harvester Company is a corporation authorized to do business in Indiana but incorporated under the laws of another state It manufactures farm implements and motor trucks and sells them both at wholesale and retail. The company brought suit to recover taxes paid under the Indiana Gross Income Tax Act on the ground that it was an interference with interstate transactions The Indiana tax was sustained on

(1) sales by Indiana branches of the company to out-of-state customers who came into Indiana to accept delivery;
(2) sales by out-of-state branches to Indiana customers on which delivery came from Indiana factories,
(3) sales by Indiana branches to Indiana customers in which delivery came from out-of-state factories.

[54] 64 S Ct. 1023 (1944)

[55] International Harvester Company v Department of Treasury of State of Indiana, 64 S Ct. 1019 (1944)

These decisions, coupled with other tax cases in recent years, indicate that the Supreme Court is becoming reluctant to throw the cloak of constitutional protection around taxpayers against either state or federal tax laws. It seems that corporations and individuals must look to Congress or to state legislatures for such protection in the future.

Another recent development of tax law is in regard to husband-wife partnerships, which have been formed principally to avoid certain income tax levies. Some of these partnerships have been sustained as bona fide organizations, while others have been held to be mere subterfuges The overruled case involved two husbands doing business as general partners with their wives as limited partners The partnership was formed by dissolving a corporation after the husbands gave stock in the corporation to their wives. The court found in this case that the husbands relinquished no control over the business and that the wives made no contribution to it, and therefore a valid partnership was not created. Therefore, the courts held that the husbands, personally were fully liable for income taxes on the partnership earnings [56]

In another case, the court upheld a partnership arrangement whereby the husband gave an interest in a manufacturing business to his wife in her own right, and another interest to her as trustee for their minor children In upholding this partnership, the tax court rejected the government's contention that to recognize it would be "to open up a door for tax avoidance" The Court held that "the door has long been open because there are many cases which have sustained the validity of such partnerships."[57]

The income-splitting provision of the 1948 Federal Income Tax Amendment may greatly reduce the number of husband-wife partnership organizations to effect savings in income taxes, but it will not in any way affect their validity.

Summary. There is no more complicated and involved aspect of taxation than its legal and constitutional principles The Courts have not always been consistent or in step with economic and social progress There is much conflict of law in the field of taxation; the opinions of the courts often holding to contrariety of points of view

[56] O William Lowry, Charles R Sligh, Jr, 3 T C — No 97, Docket Nos 112691, 112692 (Hairon, Jr) May 8, 1944

[57] J D. Johnston, Jr, 3 T C. — No. 101, Docket No. 109698 (Tyson, Jr.) May 10, 1944

Due to the dual system of government in the United States, the federal and state governments have certain plenary powers to impose taxes The states have the power to grant certain tax privileges to their local units This dual system of government has been responsible in many instances for multiple and double taxation The great need of revenue has caused the federal, state and local units to tax almost every available source of income In general, the federal government can impose taxes only according to the expressed or clearly implied powers of the Constitution The states can levy any tax which has not been expressly denied them. The local units can use only such forms of income as have been specifically granted them

Every tax must be levied for a public purpose only The same principle applies to loans because they must ultimately be liquidated out of taxes Taxes are imposed as an act of sovereignty Therefore, a constitution or a statute is to be regarded more in the light of restriction rather than a grant of power. They define and restrict rather than grant the power of imposition

In the last few years, the Courts have been re-examining the old doctrine of immunity At first, because of the dual system of government, it was held that neither the federal nor state governments could tax each other or any of their respective instrumentalities Goods moving in interstate commerce were regarded as entirely exempt from state and local taxation But of late, especially since the Sixteenth Amendment and the Helvering v Gerhardt decision, the immunity rule has been greatly modified The federal and state governments do tax each other, with certain restrictions, and the states do impose levies upon goods moving in interstate commerce. At present, it is impossible to reduce these rules to a single statement of principles

In this chapter, only the most essential and fundamental principles of tax law have been presented The legal principles which apply to specific taxes will be studied as these forms of income are considered elsewhere in the text

TEXT QUESTIONS

1 How has the dual character of sovereignty in the United States complicated the problems of taxation?

2. Why is the power to tax a sovereign power? Is it created with or given to the state?

3 What is meant by *public purpose* when used to refer to taxation?

4. Distinguish jurisdiction when it refers to realty and when it refers to personalty

5. Why is the federal power to tax often regarded as restriction rather than a grant of such power?

6. Distinguish use of a tax for revenue and use for regulation. Give several illustrations with legal dispositions by the courts

7 What does the Constitution of the United States say about direct taxes? about indirect taxes?

8 What is the court holding in Pollock v Farmers' Loan and Trust Company case?

9. What is the commerce clause of the federal Constitution, and what significance does it have with respect to the power of taxation?

10 What principle of taxation was announced in Brown v. State of Maryland?

11 What does the federal Constitution say about excises? What is an excise tax?

12 What was the state and federal history of the taxation of oleomargarine up to 1949?

13 Why were the taxes imposed under the AAA and the Bituminous Coal Act of 1935 held to be unconstitutional?

14 What are the principal restrictions imposed by the federal Constitution on the powers of the states to tax?

15 What is meant by the word *immunity* when used to refer to the power to tax? to what extent does it apply to the federal government? to the state and local governments?

16. In general, what are the restrictions of the states to tax interstate commerce? What are the exceptions?

17. What are the rules of uniformity and equality as they apply to the states and local governments?

18. Specifically, why did the Supreme Court sustain the constitutionality of the Indiana Statute to tax chain stores?

19. Account for the distinction which the United States Supreme Court draws between a state tax on sales and a state tax on use.

20. Why do tax officials view husband-wife partnerships with suspicion?

APPLICATION PROBLEMS

1. Suppose the XY Milling Company of your community does a large business of buying and selling, storing and processing of wheat. It buys in interstate commerce a million bushels of wheat for storage and processing While this wheat is in storage and being processed in the company's elevators, your local unit places a property tax on it Is such tax constitutional?

2. Suppose your state imposes a two per cent tax on retail sales It now proposes to apply the same rate as a use tax on automobiles and gasoline. Would such use tax be constitutional?

3. At the time when the XY Corporation was incorporated in your state to do a manufacturing business, there were specific rates on income and property Later, without the consent of this corporation, these rates were increased by proper statutory process. Why is this not a violation of the Fourteenth Amendment? Would the Dartmouth College case apply?

4. Suppose your city proposed to tax gross or net incomes. Could it do it? Prepare recommendations to this effect

5. Suppose Congress attempted to regulate child labor by imposing a tax on interstate shipment of products produced in your state Would such tax be constitutional? To what extent, if at all, would the Tenth Amendment apply?

6. The Sixteenth Amendment gives the federal government the power to tax incomes "from whatever source derived " Does this give the federal government the right to tax the salaries of state officials? of state employees?

7. Suppose that a particular tax fell with such weight upon a corporation as to take all profits and ultimately to force it into liquidation and dissolution Has it any constitutional defense?

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CHAPTER 18

SHIFTING AND INCIDENCE OF TAXATION

Former chapters have presented the development of taxes and public debts, the operation and legal aspects of tax systems, the sources of income for various grades of government, and the purposes and economic effects of government spending. There still remain for discussion the specific effects of these operations upon the consumer, business, and general social life This and the next two chapters will consider especially shifting and incidence, justice, and exemptions of taxes.

The imposition of a tax is only the beginning of a long series of economic events and results which affect both consumers and industries, and which ultimately reach the operations of government itself A tax is not merely a matter of an impost today, a collection tomorrow, and finally the spending of the acquired sums. The effects work their way into the whole economic and political organization and produce changes and effects which are of profound importance to every person in society. These changes affect not only government income and outgo, but the broad national policy as well. They relate to standards of living, productivity of industries, individual wages and incomes, and, equally important, to policies in relation to what may be called economic progress of the society.

This chapter is especially concerned with a study of the general economic and political principles of shifting, incidence, and diffusion of taxation Since each form of public income has its own peculiar characteristics of shifting and incidence of its burden and effects, these matters will be deferred until the history and theory of each particular tax is considered Here, only the general principles of shifting, incidence, and diffusion will be presented.

General Considerations. Various types of taxes often reach the citizen directly, in many cases he has little or no opportunity of shifting the burden, at least immediately. Certain types of sales taxes on the consumer, as used by many states and, in some cases, by the federal government, illustrate this point Today it would require something of a search to discover a person, however poor, who is not the payer of a tax, directly or indirectly.

Other types of levies are immediately or ultimately shifted from the original payer to other persons. If it were possible to follow the entire tax stream as it threads its way through the many hidden channels to the ultimate payer, the whole story of levy would not yet be told. This is true because each payment, whether direct or indirect, sets into operation other chains of events not immediately related to the tax categories, nor even contemplated by tax authorities, but which, nevertheless, are set to work by the operation of the tax. Reference is made to the general effects of taxation on the economic organization, upon the capacities of industries for production, upon wages, incomes, employment and unemployment, and upon opportunities of people to build up protection in the form of savings bank accounts, life insurance policies, or in property of any description. These more remote effects are "pressures" or burdens of the tax generally diffused throughout the economy, as distinguished from the imposition and shifting of the levies.

Definition of Terms. Shifting of a tax means the ability of the payer to transfer its burden on to some one else, usually through the mechanism of the pricing process. There are various ways of changing prices one of which is through quality, hence, tax shifting might cause a change in quality instead of a change in actual price. This shifting usually can take place only where the payer has an economic advantage or a superiority of bargaining power over his consumer. The word "incidence," as usually defined, means the final resting place of the tax. Some taxes are shifted; others are not, at least not immediately or specifically. In any event, whether the tax rests finally upon the person against whom it was levied in the first instance, or whether it moves to someone else, it ultimately reaches the end of a route beyond which its burden cannot be further shifted. This final terminus is the incidence of the tax where its impact is absorbed.

Some authorities split the effect of the taxing process into several stages. First, there is the idea of "impact." To use the words of one authority: "The impact of the tax is therefore the immediate result of the imposition of the tax on the person who pays it in the first instance. It corresponds to what is often, but erroneously, called the 'original incidence,' or the 'primary incidence' of the tax."[1] This authority continues: "There is but one

[1] E. R. A. Seligman, *The Shifting and Incidence of Taxation* (New York

kind of incidence, namely, the ultimate incidence, which emerges only when the tax finally settles, or comes to rest, on the person who bears it."[2]

The first stage, therefore, in the movement or transfer of the tax burden is its *impact*. Then follows, in many cases, its *shifting*, and finally, its *incidence*. Finally there appear the "pressure" or general diffusion of the tax and the "escape" which lie somewhere after and beyond its incidence.

When a tax is shifted to consumers in the form of advances in price, the cost of the commodities affected may reach a level where people are led to abstain from a portion of, or all of their needs for the commodity, or to shift demand to substitutes. Thereby they may escape the tax in whole or in part, but they are put to the inconvenience of doing without or using less desirable goods. The merchant, because of loss of sales, may suffer a decline of his profits and may be forced to make shifts in his business to protect his position as a seller. In either case, "this is not a pressure of incidence because since he pays no tax, there is no incidence; it is the pressure of evasion. The burden of the tax may thus be felt by those who do not pay, as well as by those who do."[3]

What has been said thus far about shifting the impact of a tax relates to transferring its burden forward in succession by way of increase of price or change in quality from one payer to the next. But shifting may also take place in the opposite direction, as from retailer back to wholesaler or from wholesaler to manufacturer by way of reduced prices. As, for example, suppose a 10 per cent ad valorem or specific tax is put on the wholesaler. He might shift it forward to his retailers by way of higher prices, or backward to his supplier by way of lower prices or, in both directions, depending upon the economic circumstances and relative advantages in each case. Thus a tax may be shifted either forward or backward, or in both directions, or its amount may be shifted entirely, in part, or perhaps by something more than the tax, or not at all, which means that the shifting of a tax burden often becomes a very complicated economic process.

Another theory of tax shifting supported by many economists is the diffusion theory by which is meant that a tax when imposed does not shift itself according to definite channels or directions but spreads its effects more or less unevenly and throughout the

[2] *Ibid.*, p. 12.
[3] *Ibid.*

entire economic system among cognate industries and commodities This theory is an institutional approach to tax shifting, and is an admission that all taxes of whatever kind and description are immediately or ultimately shifted. This theory supports the shifting of taxes on net income or on economic rent of land and other direct taxes

Again, these transfers of the tax can take place usually only when the payer has some kind of economic or bargaining advantage over his supplier or purchaser which explains, in part, the monopolist's power over tax shifting

The concept "tax evasion" means something a little different from that of pressure and diffusion. It suggests that somehow a person has got around a law which was intended to apply to him. A distinction is usually made between legitimate and illegitimate evasion. The former term is used to cover such cases where consumers refrain in whole or in part from consumption of taxed articles or, perhaps, where some social purpose has been involved in the law, as with heavy taxes on some articles to discourage consumption. Since this is in accordance with the purpose of the law, no stigma is attached to the practice. A similar aim is often involved in heavy import duties designed to discourage consumption of foreign commodities in order to protect home industries Evasion, so-called legitimate, is the purpose of the law

Nowadays, "penalty" taxes are becoming a rather common occurrence, being imposed under the police power of the state Their object is to accomplish some desirable social purpose, such as to improve the health and morals of the people. The lawmakers intend that such tax shall be evaded in whole or in part The tax on undistributed profits in the tax bill of 1936 was in this class. It was expected that the corporations would pay out their surpluses in dividends to avoid the tax All this signifies that the authorities are often inspired by other motives than obtaining revenue—those other motives being the achievement of some purpose which, in the eyes of the law, is more important than revenue

Difficulties in framing tax laws sometimes open routes for escape of payment. Tax statutes cannot be drafted to cover a particular person; this would be class legislation and hence unconstitutional, but they can be made to apply to a particular class if based upon an economic distinction Such laws are sometimes stated in more or less general terms; but peculiarities exist both

with persons and incomes which no law can cover. Moreover, in the United States, with forty-eight sovereignties plus the federal government, each enacting tax laws to meet its own local conditions, and sometimes to provide an escape from more severe authorities elsewhere, various doors are opened for tax evasion. It was once the practice, by no means at an end today, for new enterprises to incorporate in "bargain counter" states where the incorporation taxes and other imposts were lower than in other jurisdictions. Some states keep income and inheritance taxes purposely low, or impose none at all, for the purpose of inviting migrations of capital to such localities, or to induce investments to remain within their borders.

Other ways of escape are numerous: investment in tax exempt securities, family corporations which, hitherto, the law has put on a basis different from ordinary manufacturing and commercial enterprises, incorporation under foreign laws, and the moving of capital from taxridden or politically disturbed countries. These are only a few examples. Some of these devices are questionable, others are legitimate. In some instances, the escaping person is outside the spirit of the law, but is entirely within the letter of the statutes, but they are all escapes of one kind or another from the burdens of taxation.

Direct and Indirect Taxes. Direct taxes are those levied immediately on the persons who are to bear the burden, and are not shifted. Indirect taxes are those which are not so levied, and are shifted. In final analysis, the operation of taxes can most generally be pursued by tracing the shifting process to the point of incidence, or further, to the effects of diffusion.

The terms direct and indirect have undergone many changes in meaning, interpretation, and usage in tax classification over the years and in various countries. It is not easy to trace the origin of these terms, but in France the phrase *assise directement* was in use for personal taxes as early as the sixteenth century. Adam Smith used the term direct tax, but in a less technical sense. During the American Revolution, and later, the term was used with the very specialized meaning of the poll tax. Prior to the income tax, the English used the term assessed taxes on land, windows, hearths, servants and other tangible forms of wealth.

The origin of the term indirect tax is even more uncertain. It seems to be connected with a government levy on commodities

and not on persons At present, the indirectness consists in the tax being levied indirectly on one group of people but collected from another group who subsequently recoup themselves from the first. This interpretation implies a theory of shifting, which means that the real tax payer is someone other than the one in immediate contact with the revenue collectors [4]

It is worth remarking that in legal parlance the interpretation of the term, direct tax, has not always been the same. Full discussion of this point is reserved for the section on the income tax, but it might be said here that, although the United States Supreme Court has sometimes wavered in its point of view, a direct tax, in the concept of the Justices, has meant capitation taxes and taxes on real estate. Several sections of the Constitution have a bearing on this question, as, for example, Article I, Section 2, "Representatives and direct Taxes shall be apportioned among the several States which may be included in this Union . . ."; Article I, Section 8, "all Duties, Imposts, and Excises shall be uniform throughout the United States"; and Article I, Section 9, "No capitation, or other direct Tax shall be laid, unless in proportion to the Census or Enumeration hereinbefore directed to be taken "

Importance of Tax Incidence. For the citizen taxpayer, it is important to know how his welfare is affected by the tax measures enacted by his representatives. It cannot be repeated too often that the source of income of both people and of governments depends upon the enterprise of citizens, and every person is concerned with the uses of that income It is therefore imperative that both the lawmaker and the taxpayer shall have as complete knowledge of the direction and the extent of the shifting of a particular tax and of its general economic repercussions as can be had, otherwise, a very unjust or inequitable tax may be imposed inadvertently upon the person or thing least able to bear it

It is by no means easy to follow the trail of a tax from impact through all its stages of shifting to the ultimate payer, and even more difficult to trace the effects of the various pressures and diffusion. In many instances, the best that can be done is to ascertain tendencies of more or less general nature. Complete statistical accuracy of tax shifting is unattainable because the

[4]Ursula K. Hicks, "The Terminology of Tax Analysis," *The Economic Journal*, March, 1946, p 38.

shifting often takes routes which are difficult, if not impossible, to follow Then, too, the compounding of the tax, as it passes from one layer of producers to another, adds to the difficulties of calculation. If, for example, the final consumer wishes to know how many cents in the price of a loaf of bread are due to the various taxes which have been laid on producers of raw materials, on processors, on merchants, and on service industries handling the commodity on its way to the market, he may find such facts very difficult, if not impossible, to ascertain. But the general tendencies are important, and in most cases they can be defined and followed with a good degree of certainty

Compromise in Tax Systems. Tax systems are often more or less of a compromise Ethical principles are usually not the guiding motives A tax, such as the import duty, may produce good and bad results at the same time. This condition is inherent in all tax policy. No tax measure is completely good, nor is it wholly evil There are no painless taxes, some taxes are better or worse than others

Thus in tax matters, such questions arise as the advisability of exempting government bond issues from income taxes, of taxing capital gains and undistributed profits, and of imposing heavier levies on incomes in the higher brackets. The wordy battles that have been waged on these issues often fail to take into account the fact that these matters involve a choice between bundles of circumstances which contain a mingling of good and evil The authorities try to choose the bundle of conditions which contains a preponderance of good with the minimum of evil. In practice, the application of the principles of taxation is indefinite and often conflicting. In many instances, the ultimate results, whether good or bad, are not immediately discernible The best tax system must be a compromise It has been said that "existing tax systems are based on no principles, and can be understood only by reference to the historical circumstances under which they grew up."[5] Some authorities deny there is such a thing as a system of taxation but insist that it consists of a heterogeneity of government levies.

Just a few illustrations of the conflict Shall income from government bonds be taxed, capital gains be ignored, undistributed profits be exempted; personal incomes be taxed more heavily; incomes of government employees be taxed?

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[5]Henry Clay, *Economics for the General Reader* (New York. The Macmillan Company, 1919), p 368.

Advocates can be found on the affirmative and on the negative sides of all these issues Each may support his case by a list of arguments, ignoring or underestimating the arguments on the other side. The questions mentioned are all current issues In all cases are involved conflicts not only of purposes and of ideals, but of estimates of results supposed to flow from the tax policy.

To reveal the nature of this conflict more fully, one case may be taken, namely, levies on government securities for income tax purposes. It is commonly claimed that when the income from such securities is made taxable, the government is compelled to offer a higher rate of interest than would be necessary with tax exemption. What the government gains by the tax it loses in higher charges for lenders' funds—a case of putting money in one pocket and taking it from the other The case is probably a good deal more complicated than the statement indicates, but that there is conflict of ideas and even of purposes, is apparent

Then, too, sometimes what might be called ethical considerations become part of the conflict; not a few insist that it is unjust to permit those who hold certain types of government investments to escape in whole, or in part, their share of the burden of government, while others must bear their full share

Unfortunately, in tax matters there are no norms which either lawmakers or general public will accept without serious modifications Expediency becomes the guide. This means to many authorities the productivity of government revenue without too great a diversion of funds from the normal spending of individuals or from savings which are usually destined for industrial purposes. Much government spending is for consumption purposes; it reaches destinations which do not add to the productivity capacity of the country

Economic Forces and Taxes. The conflicts just mentioned are not matters that lie on the surface They have a deep taproot in methods of human thought, and these are inspired by a variety of human motives This leads to a study of the economic laws which bear on the tax questions.

The term "force," as used in the expression "economic forces," is an analogy, possibly taken over from mechanics. Economic forces, so-called, lie within individuals They are wishes, desires, volitions, judgments, and everything back of these conditions, which lead to human action. There may be the desire to buy or

sell, or to acquire wealth, or to use income, either for personal aggrandizement or for some charitable motive seemingly remote from any personal objective which might inspire the individual, except that of being charitable. There may be any one, or a combination, of dozens of motives. These motives arise within individuals, and are often stimulated by conditions which they themselves do not understand. But they lead to action Where these actions affect the getting or spending of incomes and the production of goods and services they are economic, and thus are called economic forces.

These forces are operative in all tax matters, as in every other economic condition of life They are, of course, active in the shifting of the burden, and in the escape or evasion of a tax. Tax policies act upon the personal judgment of all those who are touched by the impost, and such measures direct the line of personal action. The judgment of the individual may be right; it may be wrong. But it is his judgment and it leads him to such action as he thinks is proper under the circumstances. In tax matters, as in all other realms of economic action, these judgments direct the reactions They lead over trails which are intended to deliver the individual to the highest possible wellbeing It is well to bear this fact in mind, because many people think that both the immediate and ultimate effect of a tax is automatic, that all persons respond in the same manner This is far from the case

Tax Shifting and Economic Laws. In this connection, direct taxes may be dismissed temporarily with the statement that, although direct taxes are not shifted, they are, nevertheless, a cause of pressure and escape In short, the effect of the direct tax does not come to an end with payment or avoidance It is conceivable, for example, that gasoline taxes might become so high as to cause people to economize in the use of that source of power, or that the tax on dwellings might become so great as to discourage home ownership; or to cause the owner of a building to transfer at least part of his investment elsewhere by allowing the premises to fall into disrepair.

These are matters which will come up for later discussion. The concern here is with indirect taxes and their economic effects Where such levies are made on producers and distributors, they act as a cost of production, and, as such, are treated by them like any other cost as, for example, labor, raw material, obsolescence

and depreciation. Hence, the effect of such levies can be ascertained only by a study of the economic laws of value, for it should be remembered that shifting occurs in the market place where goods and services are bought and sold at a price. It is, therefore, a phenomenon connected with payment for a commodity or service or with its quality. The problem of shifting and incidence is to discover how a payment made by a person or company eventually reaches the pocket of someone else

With this in mind, economic laws may be summarized under the following conditions[6] and their effect on shifting and incidence and general diffusion.

A. Conditions of pure competition
   1. Price making under constant cost
   2. Under increasing cost
   3. Under decreasing cost
   4. Under joint cost
B. Conditions under absolute monopoly
   1. Price making under constant cost
   2. Under increasing cost
   3. Under decreasing cost
   4. Under joint cost
C. Monopolistic competition

Taxes on Constant Cost Industries. This condition of constant cost or constant return is not as prevalent today, at least in the United States, as it was some fifty years ago when more goods were made by hand. With the increasing mechanization of business, and with the development of intricate forms of business organization, most industrial enterprises now come in the category of decreasing unit cost or of increasing return

As currently expounded, constant cost applies to a type of production where a change in the volume of business has little or no effect on the unit cost; or, as the classical economists put it, to the production of commodities which are susceptible to indefinite multiplication without increase (or decrease) of unit cost Thus, whether the total output is ten units, or a hundred, or a thousand, the unit cost of production is approximately the same, or so nearly the same as to make the difference negligible.

[6]If the student is not familiar with the theory of constant, increasing, decreasing, joint and monopoly cost conditions, he should study Chapters 14 and 15 in Garver and Hansen, *Principles of Economics* (Boston: Ginn and Co., 1937), and Chapters 12, 13, 14, 15, 17, and 18 in Taussig, *Principles of Economics* (New York: The Macmillan Company, 1946).

A possible variant of this condition is found with the thousands of small shop men and merchants whose status as manufacturers or merchants is not much different from many others in the same field. If change takes place, it is more likely to be in the direction of contraction than of expansion. The volume of their business remains relatively constant, at least in normal times. Among the small business units there are no important differential gains They are on practically the same unit cost basis. The elements that enter their outlay are substantially the same, and the cost per item, barring regional differences, is the same

It follows from what has been said that given kinds of taxes affect all constant cost producers alike Differences in productive conditions are conspicuous by their absence. There are no differential gains in one group in this class as compared with other groups in the same class. There is nothing exceptional which may be made the object of the tax, that does not reach all members of the constant cost class Such producers must treat the tax as a cost of production, and consequently pass it on in its entirety to consumers as an addition to the price. This signifies that the tax is shifted in its entirety to the consumers of the product

As to the "pressure" or diffusion of the tax, it may happen that an advance in price will curtail the demand for the commodities thus affected The producer could not escape, at least for any length of time, by absorbing the tax because that would diminish his capital, that is to say, reduce the amount of his physical stock in trade, and before long he would disappear as a producer or dealer The shifting of a tax under such conditions seems to be a matter of necessity and not of choice through an advantage

Taxes on Increasing Cost Industries. Industries which fall in this class include practically all those engaged in extracting raw products from any source in nature Farming, mining, lumbering, fishing are in this category. Now it happens that nature has not distributed its gifts with equal abundance Even in the original state, soil is of all degrees of fertility, the thickness and quality of seams of coal vary from locality to locality; petroleum is found quite near the surface in some areas and at great depths in others, and the gas pressure and flow of oil vary, ores are not alike in quantity or character.

This signifies that under the original conditions in which nature has stored the reserves, a given amount of labor and of capital is

more productive at one source than at another. The cost of production varies from enterprise to enterprise and from source to source.

Then another common phenomenon presents itself: If the need for any of these commodities increases, more intensive development will be required, which will demand the use of more labor and capital. The eventual outcome will be a declining return on units of both these productive agents: That is to say, the law of decreasing returns begins to operate. Higher prices will be necessary to support the increased cost of the needed additional supplies.

How do these industrial conditions affect the movement of a tax from impact to incidence? The outcome depends on the manner in which the tax is imposed and perhaps the slope of the cost curve. Possibly it is now clear from the exposition given that from producer to producer there are considerable differences in cost—differentials which competition cannot eliminate because they are due, in part at least, to inequalities of natural conditions. The high cost, marginal and sub-marginal producers get no surplus above expense of operation But grading down the line from marginal producers are surpluses of increasing magnitude

Thus a tax imposed in such manner as to reach marginal producers will be shifted Enterprises in the high cost ranges cannot absorb the tax They must either shift it or encounter loss, and the latter condition cannot continue for any length of time if they are to remain in business

On the other hand, if the tax is imposed on the excess incomes of those below the marginal group, it will remain on this group. This is to say, being imposed upon net income, it will not be shifted. This is true whether the gain is in the form of economic rent, or of quasi-rent of superior increments in invested capital

In most cases the return on a natural agent—farming land, mineral properties, water power sites, and so on—of superior producing capacity is capitalized, in whole or in part, in the value of the natural agent. Hence, a levy on its value is a direct tax. On the other hand, a tax on land area, which affects all alike, is shifted. So also with levies on the products of forests, fields, and mines, and on processes of production. Such levies are spread over all producers, high and low cost as well. They act as a cost which enters the price.

Taxes On Decreasing Cost Industries. One of the unique features of industrial development during the last sixty or more years has been the growth in the size and mechanization of industrial establishments. Among the reasons for the change are the many economies in the use of machinery and division of labor, in better forms of marketing and the employment of more efficient types of business organization

As the business grows in the direction of the optimum size, the unit cost declines, due chiefly to the tendency of certain overhead costs that remain statically fixed or constant. Under a system of pure competition, the rivalry among managers would force expansion to the best or optimum size, and prices would come to equilibrium at a point which would just cover the costs of production at such establishments. There would be no differential gain—at least, not for any length of time Under such conditions, a tax on decreasing cost enterprises would act as another element of cost which would be shifted on to consumers It could not be absorbed because it would eventually destroy the capital with which the business operates

Granted that all managers in a given line could command the capital necessary for expansion, granted, also, that managerial ability was substantially the same among all competitors, marketing rivalry would drive the price down to the point where low cost producers could just cover expenses and nothing more In other words, the price would tend to cover the cost of production of the most efficient group A tax would affect them all alike It would be shifted

However, whether a situation is examined at any period of growth, or as a continuing phenomenon, differences in cost do exist. Competition is a process; as such, the effects are worked out only in time Meanwhile, conditions among rival producers are continually undergoing change. Thus the ideal condition of all low cost producers attaining the same level of cost is never reached To the extent that differences exist, a tax designed to reach those differences will not be shifted.

Joint Costs of Production. Another important feature of modern industry is the drive to diversify products, in other words, to broaden the base from which income may be derived In the by-product industries, this is achieved through the simultaneous development of two or more commodities, one (or several) of

which represents the main purpose for which the business was organized. The others are more or less incidental to the main purpose Or, sometimes, by-products are produced from the waste of one department of a business, which becomes raw material for another

In the distillation of coal for gas making, coke and some other materials are by-products Likewise cotton seed, the raw stuff for cotton seed oil and for meal and cake, is a necessary incident in the growing and ginning of cotton, cake and meal are by-products in the refining of the cotton seed oil. So also in the production of copper and silver, or lead and silver, in the case of argentiferous ores, silver is often a by-product.

The income of these companies is derived from the sale of all commodities that come within the jurisdiction of the management In short, the income is obtained from the joint sales The customary way of stating the economic law covering this case is to the effect that joint incomes must cover joint expenses of production

Presumably, joint product industries, at least in manufacture, come under the law of decreasing unit cost Where pure competition prevails, the law operates for each and all the products. Thus it makes no difference whether the company meets other companies in the open market with the same full line of products, or whether the competition is encountered by a dozen or more companies each competing with one or more of its groups of commodities In any event, the tendency of pure competition would be to force the selling price of any and all products to a point which would cover the normal expenses of production. That is to say, the tax would be added to the selling price of the goods, and the shifting will operate the same way as in the ordinary case of decrease costs of production

In current policy, enterprises usually employ at least a part of the excess profits for penetration into fields which present new opportunities; sometimes, as with industrial research, into areas which hitherto have not been exploited A discussion of this question would lead into the realm of effects which lies beyond tax incidence. Suffice to say that it is possible to tax both monopoly net profits and monopoly goods. In the latter case the tax would be at least partially shifted. In the former, it would be borne by the enterprise.

Taxes On Monopoly Industries. Taxes imposed on monopoly industries achieve important and different results. An industry in this class possesses enough control over the supply to keep the price above the competitive level. The mere concept of monopoly is that of an organization which has been relieved of some of the pressure of competition. The monopolist cannot control the demand, at least only to a very limited extent, but he can adjust the supply within limits so as to have a noticeable effect on price. He will continue to adjust the supply until he receives the price, taking all conditions into consideration, which gives him the maximum *net* return.

The outcome of a tax on monopoly depends upon the way the tax is handled, and the conditions under which it is levied, especially the slope of the demand curve. A tax on monopoly net profits remains on the enterprise But matters are adjusted otherwise if the tax is laid on monopoly commodities. The monopolist might experiment with adding the tax to the price But under certain conditions he would encounter a shrinkage of demand and an increase of unit costs, notably if the demand were elastic, which would limit his ability to shift the tax burden. The quest for maximum net profits under the new arrangements will lead him to bear part of the tax and to shift the remainder. The case might be different for articles of inelastic demand, particularly if the tax is relatively light In this instance, the impost will be largely if not entirely shifted As just suggested, the actual movement of the tax under monopoly conditions will be affected by conditions of increasing, constant, and decreasing costs. Each of these conditions will determine the extent, if at all, the tax may be shifted by the monopolist, but usually the monopolist operates under decreasing cost increasing return basis.

The effect of a tax on each unit of goods produced under conditions of monopoly may be illustrated by the schedule on page 476.

As under pure competition, the cost of production of each unit under conditions of monopoly will decrease in some proportion with increase of supply. To dispose of larger quantities of his goods, the monopolist will have to decrease his price. If the monopolist takes full advantage of his position he will manipulate the supply he puts on the market until he discovers that price which will give him a maximum net return, taking into due consideration the changes in unit costs and selling prices with volume

EFFECT OF A TAX ON MONOPOLY PROFIT

Number of units produced	Cost of production of each unit	Selling price of each unit	Monopoly Profit	Profit with $1.00 tax on each unit
25	$7 00	$20 00	$ 325 00	$300 00
50	6 75	18 00	562 50	512 50
75	6 50	15 50	675 00	600.00
100	6 35	14 25	790 00	690 00
125	6 00	14 00	1,000 00	875 00
150	5 65	13 26	1,141 50	991 50
175	5 50	12 10	1,155 00	980.00
200	4 25	9 75	1,100 00	900.00
225	4 00	7 50	787 50	562 50
250	3 75	6 80	762 50	512 50

production. In the above schedules, he will realize his maximum net monopoly profit of $1,155 00 when he offers 175 units at the price of $12 10. But with a tax of $1.00 on each unit, his maximum net profit then becomes $991.50, in which case he will offer for sale 150 units at a price of $13 26 Under such circumstances, he may decide to shift the entire or the principal part of the tax on to the consumer by way of increase in price

Monopolistic Competition. As the term suggests, monopolistic competition refers to that condition in the market which contains a mixture of the elements of competition and of monopoly in varying degrees To explain the effect of taxation upon goods and services produced under conditions of monopolistic competition, it will be necessary to recapitulate a few principles of competition and monopoly already discussed and tax impact and shifting.

Pure competition is said to exist when the number of sellers (or buyers) is so great that any one or any small group of them could affect the supply on the market so little as to cause no appreciable alteration in price The market price under pure competition will always tend to approximate unit cost of production. The effect of a tax imposed upon goods and services produced under pure competition has considerable variation. The effect and degree of shifting of the burden seems to be controlled to a very large extent by the relation of quantity and cost In the case of production where the cost is constant regardless of the quantity, the tax is shifted in its entirety by the producer onto the consumer,

otherwise the producer would drive himself out of business. In such instance, the shifting of the impact by the producer seems to be a matter of compulsion and defense, rather than the result of any economic advantage or superiority of bargaining power In the case of increasing cost, *i.e.*, where the unit cost increases as the quantity produced increases, the tax can be shifted only in part The tax is divided between the producer and the consumer depending upon how rapidly the cost mounts with respect to volume of output In the case of decreasing unit cost condition, the producer is able to shift the tax to a greater extent on to the consumer because of the advantage of lower costs as the volume increases. But the producer operates under limitations because if he shifts the tax and thereby increases the price, the output sold will be decreased and his unit cost will become greater, therefore, his degree of shifting has distinct limitation.

The degree of shifting the tax under conditions of monopoly is controlled to a very large extent by the effect of price on demand The more inelastic the demand becomes, the greater is the power of the monopolist to shift the impost of a commodity tax But, again, since he is operating under conditions of decreasing cost, his shifting is done under limitations. His sequence of limitations may be stated thus shifting the tax means higher prices, higher prices mean reduced consumption and production, and reduced production means higher unit costs. But he will always attempt to operate under a resulting price which will give him the maximum *net* return.

The value theory as stated under conditions of monopolistic competition denies the existence of pure competition because of lack of complete knowledge in the market, and of absolute monopoly because of the ever presence of substitution It contends that the actual market is essentially a mixture of competition and monopoly at the same time in varying proportions Two concerns may be in competition in the same market and yet one may have some advantage, however slight, over the other due to differentiation of product, good will, credit terms, advertising, ability of administration, and many other intangible factors.

Since the market contains both the elements of competition and of monopoly a commodity tax imposed on its operation would have a composite effect according to the principles back of these conditions. This type of production operates under laws of de-

creasing cost for both the competitive and monopolistic conditions The impact of the tax may be expected to be shifted by the firm according to the advantages which the elements of competition and of monopoly may afford

Cases of Tax Shifting. Mention has already been made of the direction of tax shifting A tax may be shifted forward by the payer on to his consumers, or backward on to his suppliers, or, perhaps, in both directions depending upon the economic conditions and the advantage and bargaining power of the payer. One of the best examples of a tax which was shifted both directions, often at the same time, is the old processing tax. It will be recalled, under the Agricultural Adjustment Act of 1933 the farmers were encouraged by agreement to reduce their output upon compensation paid by the federal government. To supply these funds, a tax was placed upon the processors of these agricultural products According to a study made by the Bureau of Agricultural Economics in 1937,[7] not a single processor or distributor of these commodities bore any appreciable part of the tax; it was all shifted by them in some manner. It is the further opinion of this Bureau that when the demand was relatively inelastic the principal incidence of the tax was on consumers in higher prices, when elastic, it was shifted by the processors back to the farmers in lower prices for their products. It only bears out the fact that the one occupying the strongest position or possessing the best advantage of bargaining power, in this case the processors, will decide the conditions and directions of shifting. After this processing tax was declared unconstitutional, and it could not be returned by the processors to those upon whom the incidence finally rested, Congress provided for the Unjust Enrichment tax as a means of its recoupment

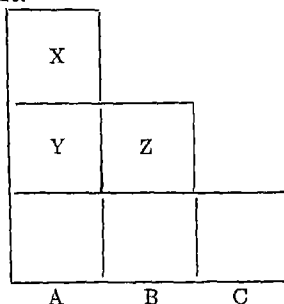
Another type of tax that may be shifted backward is the one that may be capitalized This capitalization usually occurs in the buying and selling of property, and may affect either personalty or realty. Since tax shifting in regard to realty will be discussed in the next topic, personalty will be considered here.

Suppose A owns a $1,000 callable government bond at 5 per cent which yields him an annual income of $50 tax free. It is called, reissued at 5 per cent, but made taxable annually in the

[7]Bureau of Agricultural Economics, *An Analysis of the Effect of the Processing Taxes Levied under the Agricultural Adjustment Act*, Washington, 1937, pp. 4–7

future at 1 per cent, or $10, of its face value. This is tantamount to a reduction of the income to the bond holder by the amount of the annual tax. Should he sell it after the tax has been imposed the purchaser will insist on capitalizing the tax of $10 at 5 per cent, or $200, and take this amount into consideration in determining the purchase price he will pay for the bond.

A tax on net income is not shiftable, at least not immediately, unless the diffusion theory is accepted, because all costs of production have already been deducted, and the market price has been determined and fixed according to gross costs To determine the best or optimum quantity to produce, it is necessary to know the relation between gross income and gross costs and their variance with different volumes of output; and these have already been determined and fixed before net income is known; hence, a tax on net income is not immediately shiftable in higher prices or by deterioration of quality of the product on to the consumer

Another tax that is not shiftable is one that is placed on the net income or economic rent of land. This general situation can best be shown by the diagram at the right. This diagram represents the Ricardian theory of rent. In this case, three pieces of land, A, B, and C, are considered, with C as the marginal no-rent piece whose product just covers costs The economic rent on A is (X + Y) and on B is Z, and the total rent is (X + Y) + Z. It is obvious that a tax on C would drive it out of use, either by a tenant or by a landlord, because the output could not cover the additional expense of the tax. Therefore, a tax on marginal land will tend to drive it out of use; on the other hand, a reduction or removal of a tax on land will tend to bring into cultivation submarginal land. But a tax on either A or B could not be shifted onto operation, but could only be absorbed out of the economic rent; hence, in case of absentee landlordism, the owner could not shift it on to his tenants, but would have to assume it out of his net economic rent

A matter which is often confusing is a backward shifting of a tax through the process of capitalization when the land is sold.

Suppose, in the case of piece B, the economic rent as repre-

sented by Z is $1,000. At a rate of 5 per cent, the sales price of B would be $1,000 ÷ .05 = $20,000 Now suppose an annual $300 tax were imposed on B land. The new purchaser would capitalize the tax and deduct this amount from the original value of the land to arrive at its present value. The calculations would be $300 ÷ .05 = $6,000, $20,000 — $6,000 = $14,000 the current purchase price

Import Duties. At one time in the history of the United States it was argued in Congress that a tax on imports not only yielded a large revenue, but that it forced foreigners to contribute to the support of the federal government. While there is a measure of truth in the statement, it should be taken with qualifications. If the goods belong to that class where the demand is elastic, an elevation of the domestic price, because of an attempt to shift the duty, will cause a curtailment of demand If the goods are produced under a system of decreasing cost this shrinkage in demand will cause an increase in the unit cost Foreign producers will be compelled to readjust both production and price to new conditions. The most likely outcome will be a partial shift of some of the tax and a retention of the balance The conditions will also be modified where the demand is inelastic In this instance, if the impost is moderate, most of the tax will be shifted.

Import duties are levied not only for revenue, but for protection The thought behind the latter objective is that, temporarily at least, (under the infant industry argument) the domestic producer labors under initial handicaps which cannot be overcome as long as he must encounter foreign competition He envisions the time when, with his business completely organized, and markets developed, he can hold his own as a competitor In cases where this becomes the routine of operation, the domestic supply, in time, replaces the foreign supply at prices no greater, sometimes less, than formerly charged for foreign goods As a final outcome, prices are determined by competition, only the rivalry is more largely among domestic producers who have developed their enterprises, than among foreign and domestic producers. That is to say, the effect of the import tax has largely disappeared.

Proportion of Taxes Shifted. Until shortly after 1900 the greater portion of the income of the federal government was obtained from shiftable indirect taxes. Import duties and taxes on malt, spiritous, and vinous liquors were the chief sources Of

the total receipts in the five years ending 1895, amounting to $352,000,000 (as an annual average), customs duties contributed $176,000,000, malt and spiritous liquors $127,000,000, and tobacco $30,000,000 With the great growth of governmental costs, notably at the beginning of World War I, other sources were used to make large contributions to the Treasury The larger of these sources were direct taxes, of which the personal income tax is an example.

During the hearings on the Tax Bill of 1936, agents of the Treasury Department testified that upwards of 63 per cent of all taxes paid to the federal government were indirect In fact, one of the avowed purposes of the new law was to increase the proportion of direct as compared with indirect levies

In theory, at least, a good case could be made for the objective which the agents of government had in mind. But the plan in practice encounters serious difficulties, one of which is the irregularity and uncertainty of income derived from some of the direct sources For example, income and profit taxes, which contributed $2,331,000,000 in 1929—a reasonably good year—brought in only $746,700,000 in 1933, a year of depression Reliance on such sources for large amounts of income puts a government to grave inconveniences in periods of hard times and makes necessary resort to borrowing to fill the gap between income and outgo And borrowing, if not kept in hand, may have serious results on the economic structure of the country

The states depend largely on real and personal property taxes as a means of support The levy on personal property is a direct tax, with few exceptions this is the case with real property, whether used for private or commercial purposes

It cannot be claimed that real property is a certain source of government income This was learned from experience during the disastrous years from 1929 to 1934 Land surface, buildings, and equipment remained practically unchanged during this period, but the incomes of both people and industries declined With respect to home owners, delinquencies increased to appalling numbers during the depression years

General Effects of Tax Diffusion. Shifting relates only to indirect taxes, the burdens of which may be transferred A direct tax is an impost upon the payer, who cannot pass it on to someone else But by diffusion any tax, whether direct or indirect, some-

nes called tax pressure, may have effects beyond its immediate vy; therefore, the question· What happens beyond the tax?

The ultimate sources from which taxes are paid are the pro-ıctivity of industries and people. The pressure is, therefore, upon ıem, and it becomes necessary to make readjustment to meet ıe new conditions. The immediate sources of government income ıay be (omitting borrowing, which only postpones tax collections)) wages and salaries; (2) profits of business or transactions, 3) the capital of business.

The effect of a tax on the first class presents no serious prob-əms. What the state takes from wage or salary earners cannot ·e spent by them A person in this group may have an annual ncome of $3,000. Under a scheme of budgeting, such a person vould distribute that sum according to his estimate of the import-ınce to him among the various items which enter into his annual spending—food, clothing, rent, entertainment, education, care of ıealth, upkeep and repairs of a home.

If the known taxes are $200 a year, he will include this sum as a budget item. Suppose the known tax becomes $300 a year. This amount must go into the budget. If it is not possible to increase his income by the added $100, he must reapportion his spending program, because taxes become a first lien on the property of the individual

Under certain conditions, he might obtain an increase in income by some kind of additional employment. Or, if he belongs to a strongly organized group, he may seek from employers additions to wages Nowadays, labor groups study indices of standards of living and are apt to base their claims for advances upon the rise of the price index, however caused. In that event, pressure is placed upon employers for additional payments. Here is a case where an income tax may be shifted, although it is commonly said that an income tax is a direct tax and not shifted.

To return to the reapportionment of items in the personal budget: if an increase in the individual's income is not possible, deductions must be made from one or several items in the calculation Each person will use his own judgment as to where the cut must be made. So far as the change affects commodities the demand for such goods will decline. When this condition is spread over many millions of consumers it is evident that manufacturing and merchandising industries are face to face with a serious prob-

lem of readjustment. The magnitude of the problem is affected by the rapidity with which a change in the tax rate takes place.

To be sure, what the government takes from citizens is spent, but usually not for the same class of goods, nor by the same persons, as when the funds are left with the original earners. Large divisions of government spending are involved in the maintenance of government establishments, in the construction of equipment of army and navy war machinery, in improvement of rivers and harbors, and today in the construction of light and power facilities, to name only a few large divisions of public expenditures

In addition, funds are spent in different areas from those in which they were earned Much of the tax yield obtained from such rich states as New York, Massachusetts, Pennsylvania, Ohio, and Illinois, is not spent in those states to provide food and shelter for the people of those areas, but is diffused elsewhere, perhaps up and down the Mississippi River system for improvements, or in the Tennessee Valley, or along the Columbia River, for construction of great power projects.

Some business lost by merchants and manufacturers of one area may be gained in part by sellers in another But numerous economic readjustments must take place as a result of a new tax before an equilibrium is established This may involve a decline of employment in one area and a rise in another. It may require a migration of laborers and capital from one place to another until a new balance is established.

The individual whose tax payments are increased, if he is not able to enhance his income by the amount of the levy, may overcome some of his difficulties by buying cheaper goods and services of the same kind, but of poorer quality, he may spend less for shelter, for maintenance of the physical condition of the home, and so on. This outcome is tantamount to a lowering of the standard of living because of increase of tax payments

Another possible result of the tax diffusion is even less desirable Provisions for future security may be impaired When hard pressed to make both ends meet, most people abandon, or curtail provisions for later welfare It is customarily said in economics that present wants are more urgent than future wants The future is more or less distant, and some people are inclined to take their chances with its offerings rather than slight the present where wants are visible and tangible Hence, more rapid advances in

x rates than in individual incomes may make serious inroads on person's provisions for subsequent or future needs. That means ss saving, or none at all; smaller sums invested in life insurance, r none at all; inability to acquire a home, under whatever plan, enial of provisions for the future. These results are most apparent ith marginal savers—that group which may be bent toward, or way from, thrift according to the amount of free income which hey enjoy.

A tax which does not rise too rapidly may supply the incentive or additional effort by some people, whether physical or mental. Some people will strive to hold the financial and social position nto which they have grown, and if no other avenue is open, they will put additional energy into their labor In this manner, a gradual increase in tax burden may bring some social benefit, since it causes an improvement in the quality, and perhaps the quantity of work of its citizens Others may be pushed to lower grades of existence, or standards of living

Tax Pressure On Business Enterprises. The great differences of opinion which arise in reasoning about tax diffusion are due, not so much to doubts about how a tax will work under given conditions, as to a question whether the conditions exist according to the assumptions

In the early part of this chapter attention was called to the fact that a tax, or given taxes, imposed on business enterprises may be borne entirely by this group, or be partly or wholly shifted If the levies are completely shifted, the immediate adjustments must be made by final consumers, who will take these matters into account in constructing their budgets. But ultimately the effect of curtailed or changed consumption passes the problem back to merchants and manufacturers, who, in time, discover a change in the character of demand for their products

Producers try to escape the strain of taxes. The results may be good for the consuming public, or they may be bad If the new burden on producers caused by the imposition of higher or new kinds of taxes is not too abrupt, they will probably try to avoid or mitigate the levies by discovering more efficient methods for the conduct of the business In such case the escape is through changes of management.

There is nothing new in this line of escape. It seems to be current policy to avoid advancing labor costs, or to meet competi-

tion of rivals by improving mechanical methods and by better systems of organization. In fact, the drive for greater efficiency is often made, not because a business is under pressure, but because this is the route to larger net income. Tax pressure supplies a new reason for improvement in management and techniques of production

But, as with individuals, it is not to be assumed that tax pressures can be overcome by all businesses, nor in the same degree by those who do escape Businessmen are of all kinds and descriptions Some are endowed with a high degree of business ability, others are not Some can command necessary capital to effect changes in their business Some businesses are large and some are small, and this condition makes a great difference in avoiding tax pressure.

Consequently, the diffusion of a tax which produces beneficial results for some may ruin others The latter will be the fate of all those who cannot make adjustments in their businesses to new conditions The tax will be paid from capital until this agent is diminished to the extent that the business can no longer operate Thus the pressure of a tax which cannot be shifted may produce two opposite effects, namely, the extinguishment of those who cannot survive the capital levy under the new conditions, and escape by others who can reduce costs at least to the extent of the tax

Effect On Profits. Some forms of taxes are aimed directly at profits. In such cases, the purpose of public authority is to impose levies in such a manner that they cannot be shifted Corporations are now subject to federal income taxes, many states also use this device The chief concern here is not with the shifting, but with escape The real question with respect to corporation income taxes and with excess profit taxes, where these exist, is their effect on capital accumulation, on investment, on the security of all those who work for a corporation, and on industrial progress

With this in mind, what is the effect of taxes on profits? It has been the practice among American corporations to pay part of their net income to stockholders in the form of dividends, and to retain a part for further development of the enterprise Undoubtedly, a portion of the income that goes to stockholders, notably the relatively small investors, is used for living expenses, with possibly a small amount for saving That part which is spent

ɪds to the demand for consumers' goods. The other portion is estined for the savings account, which means that it is reinvested y some type of institution either in government obligations or in ɔme kind of productive investment. That part of the net earnıgs retained by the corporation either is kept in the form of quid capital or is reinvested to increase facilities for further ›roduction.

A tax on profits diminishes the flow of money into both diviɪends and reinvestment A moderate tax on corporate incomes vill have no serious effect, although it does diminish the amount hat would go to the other types of users. It diminishes the flow ɔf purchasing power into the market place for consumers' goods and retards the accummulation of funds for further business expansion. In either case, the effects may fall upon merchants and manufacturers. The higher the tax the more pronounced the effects become The pressure works upon the corporation, upon its present and prospective investors, upon its employees, and, eventually, upon the security and progress of the social organization

All business involves risk The common reasoning is that the investor will not undertake this hazard unless there is a promise of a reasonable return on his capital A portion of the risk arises from the uncertainty of the immediate effects of the tax, another portion is involved with doubts about the effect of the tax on the future integrity of the business. A common cause of business failure is inability to maintain a liquid condition. However much the tax reduces this power of the business, to that extent it discourages the investment of more capital and brings a corporation nearer to the time when it must face its creditors Thus, one effect of pressure is to retard the investment of new capital

Effect on Business Expansion. There are two results which may follow the imposition of taxes on business. First, the tax may impair the present financial position of the enterprise. Second, it may discourage business expansion Sums that are taken from an enterprise cannot be used by the business for its own purposes. There might be a question as to which is the better use of the income of a corporation—whether for the varied government purposes or for the development of enterprises

The answer is partly involved in what a government does with its income. A large portion of government receipts are spent for non-productive activities Such expenditures are in the nature of

final consumption where funds once spent have no further effect on business development. Consequently, they do not add to productive equipment, do not expand the opportunities for work, do not improve the opportunities for better types of employment.

The investment of surplus earnings starts a long chain of desirable events, such as greater demands for raw stuffs and services of all kinds, and, eventually, for more employees to set the wheels of industry in active rotation In short, business expenditures tend to contribute substantially to the economic organization something that lays a foundation for future growth To the extent that taxes thwart that development, they deduct from the ultimate good of both consumers and employees And these results are cumulative in either direction

Effect on Stability of Business and Employment. The troublesome period in the taxation process falls during the time of all the readjustments. A given tax does not affect all businesses alike, even in the same field A change in the rate or scope of the tax system will generate pressures which no legislative body can foresee During the period of readjustment some businesses will be eliminated, some will move on with declining profits, or perhaps none at all, still others will come through without serious loss of net earnings or of working capital. The pressures will be relieved when a new equilibrium has been established, but the component industries in the economic organization will then present a very different picture from what they presented before readjustments took place. The more sudden and drastic the change in the tax system, the greater the pressures. This applies as well to large organizations as to small ones.

Every business is in need of working capital The impairment of this element in a business is tantamount to the impairment of the business itself Liquid funds must be on hand to meet changing price levels, to cover changing inventory requirements, to meet changing wage bills, among other items which require payment in a reasonably short time Again, conditions differ from enterprise to enterprise Hence, judgment as to the amount of working capital must be left largely in the hands of those who direct the affair. But it can be said with certainty that a business that fails to keep a certain part of its assets liquid is courting danger A tax system which puts a business in this position of illiquidity increases the hazards of all enterprises

This signifies that changing tax systems or tax levels introuce an added element of risk into the conduct of business. This s not a matter of concern to consumers unless, when the new quilibrium has been established, prices of commodities and ervices have been forced to higher levels than under the old rrangement

Both employers and employees have something at stake Consider an advancing levy on profits, or on undistributed profits as in the Federal Tax Bill of 1936, or any other impost which remains on the business. What a government takes cannot be used for the purchase of raw materials, for carrying stocks of goods, for the purchase of new machinery and the repair of old equipment, nor can it be employed in the payment of wages Moreover, the sums paid in taxes cannot be used as a buffer against unforeseen events which attend the ups and downs of business. Such sums are removed altogether from the uses of the businesses from which they were taken.

Effect on Migrations of Capital. The pressure of taxes may move in still other directions than those just discussed Two cases will illustrate (1) the movement of capital from one area to another to escape tax pressure; (2) migration out of productive industries into some form of possession that either escapes the tax entirely because the possession may be concealed in whole or in part, or into types of securities that largely escape governmental imposts, as with so-called tax-exempt securities.

Where taxes are an appreciable part of the cost, one means of escape is for industry to move to areas where the load is smaller Although other reasons are sometimes involved, the movement of industries from urban to rural areas under a promise of exemption from taxes is an illustration of this point Differentials in rates of property taxes, and in rates of assessments, among the various states sometimes have the same effect

The second type of migration is of greater importance because of the vaster magnitude of the amounts involved Although some government borrowing is for productive purposes, by far the greater amount of borrowed sums is spent for purposes which make no permanent contribution to the maintenance or expansion of industries. When the borrowed sums are spent, their effect, so far as industry is concerned, has come to an end This is not to say that most expenditures of a government are unnecessary or

undesirable If a legislature were conscious of the process, it would realize that in reality, by borrowing funds for government expenditures, it is making a choice between two major fiscal policies, each of which contains advantages and disadvantages If, for example, the funds were used for business purposes, the advantage would be further expansion of business with a prospect of increase of employment at more permanent jobs, and possibly the production of more and cheaper commodities. But one disadvantage would be the denial to the community of the benefits that are expected to flow from government spending The purposes are in conflict, and such conflicts cannot be reconciled The best a government can do is to weigh the prospects of the two divergent lines of policy, and to make the choice which, in the judgment of the legislators, will produce the greatest permanent social and economic good

Summary. So far as the ultimate location of the incidence is concerned, direct taxes present no problem By definition such taxes rest upon the persons who pay them in the first instance They leave no trail of shifts as do indirect taxes which must be traced from step to step as they proceed toward final lodgement.

Items which are now objects of direct tax are legion, but it is possible to reduce them to a relatively small number of classes All the chattels in the home are in the direct-tax group. Personal income taxes—federal and in most cases state—are also direct. Practically all taxes levied at the point where goods and services pass into the hands of final consumers, as will mill taxes, imposts on safe deposit boxes, and club memberships are direct and may not be shifted

The shifting and incidence of a tax may sometimes be traced with a good degree of exactness, thus making it possible to do greater justice among the taxpayers. In fact, it may be so definitely known that the tax is levied with this purpose in mind. But when a tax has been imposed, there is a whole chain or series of events lying beyond its shifting and incidence, which is called its pressure If the tax cannot be shifted on to others in higher prices at once, it will nevertheless be regarded by the payer as one of his costs of production and cause him to make such adjustments in his affairs as ultimately to mitigate or to avoid entirely its impact. This applies especially to those taxes that cannot, or can only in part, be shifted immediately Pressure, therefore,

efers to those many and varied economic readjustments which the onsumers or producers or both may make because of a tax levy ʼhe pressure effects of a tax are very subtle, but nevertheless ʼery real.

In a few cases, a tax pressure may be easily illustrated and even dentified. Suppose a tax is imposed upon an apartment building ɔr upon wages of labor In either case, the owner of the apartment nay not be able to shift it on to renters in the form of higher rents, ɔr the laborer on to his employer in the form of increased wages. But, over a long period of time, the apartment owner can allow the building to fall into disrepair and thus gradually transfer his investment to other more lucrative forms, and the wage earner can enter other vocations In such cases, the pressure of the tax distributes itself through the readjustment of capital and labor with various economic consequences

Again, suppose a tax is imposed upon the net profits of an individual or a corporation, or upon the economic rent of land. In such cases, the tax cannot be shifted on to others because all the expenses of operation have already been deducted But the profit and rent takers can decide to abandon their enterprises and to enter other fields which are not so heavily burdened

A general sales tax upon the retailer will be transferred to the consumer, who, in turn, in order to maintain his usual standard of living, will attempt to cover the burden by asking for an increase in his income in wages, interest, rents and profits.

Thus a tax may alter the entire economy of a country through its effect upon the production, consumption and distribution processes A tax upon a particular commodity or service will not necessarily affect the general level of prices, because any increase in price in one line may leave less purchasing power for another. This is especially true of necessities

TEXT QUESTIONS

1. Define and distinguish *Impact*, *Shifting*, *Incidence* and *Pressure* of a tax
2. What is the diffusion theory of tax shifting? What evidence can you give to support this theory?
3. What is meant by tax escape? Give several methods by which the taxpayer may escape payment
4. Distinguish direct and indirect taxes. What does the Constitution say about direct and indirect taxes?

5. Why is it important to know the route of shifting of a particular tax?
6. Explain shifting of a tax when imposed on an article produced under conditions of constant cost
7. What is the shifting effect of a tax when imposed on an article produced under conditions of increasing cost?
8. To what extent may a tax be shifted when imposed on an article produced under conditions of increasing cost?
9. What is the power of the monopolist to shift his taxes?
10. Why are taxes imposed on net income and economic rent of land not shiftable?
11. What effect may a tax have on the stability and expansion of business enterprise?
12. What effect may a tax have on capital migration? On investment of risk capital?
13. What are some of the economic effects of a tax on profits?
14. Can import duties be so levied as finally to fall upon the foreigner?
15. What was the purpose of the unjust enrichment tax imposed by Congress?
16. How may taxes be shifted other than through price?
17. Distinguish tax shifting backward and forward in terms of equity of burden.
18. Why does tax shifting depend upon advantage? Advantage of whom and what kind of advantage?
19. Should tax shifting be left free to act under economic laws, or should it be subjected to government control?

APPLICATION PROBLEMS

1. Suppose the legislature of your state proposes to levy a two per cent ad valorem tax on the sale by a manufacturer of a particular commodity As a tax expert, you are employed to advise this body in regard to the economic effects of such tax Outline in detail the procedure you would follow Would you consider unit costs of production, tendency to cause capital movements, and the conditions of competition or monopoly under which the commodity is manufactured?
2. Suppose the Finance Committee of the United States Senate was considering increasing the import duty on shoes brought into this country from Europe You are employed to represent a trade association of shoe manufacturers before this body Analyze such proposal and present its economic implications

RESEARCH TOPICS

1. Make a case study of as many cases as you can in your community of the effects of federal and state taxation on the establishment and the development of enterprises To what extent does the

entrepreneur take into consideration the existing tax system to which he may be subjected in the organization of a new firm, or the expansion of an old enterprise?

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CHAPTER 19

JUSTICE IN TAXATION

Justice in taxation cannot be separated from the concepts of shifting, incidence, diffusion and escape. The reason is that justice for practical purposes, as contrasted with justice in the abstract, is intimately related to the operation of the fiscal machinery of government, and this must operate within the framework of economic laws. This statement is not meant to discourage the setting up of ideals of taxation, however abstract, but merely to suggest that in a complicated society influenced by many cross currents of aims and ambitions, the complexity of government finance must be taken into account. In tax matters, public authority must study impediments to the attainment of their goal, and these impediments are found mainly in the resistances set up in individuals—conditions that can be systematized into economic laws. Incidence, diffusion and escape will operate under any tax system, however ideally perfect it may be. Thus, the goal of practical justice in taxation must take into account not only the workability of the laws but the pressures they create, and the final social results of the diffusion of tax burdens.

Concepts of Justice. It is impossible to define this term in words that will satisfy all thinkers on justice in taxation. In fact, many authorities on taxation avoid the use of the term entirely. Treatment of this subject runs the whole gamut from (1) discussion of justice of particular methods of taxation, such as proportional and progressive taxes, of levies according to benefits on the one hand, or ability to pay, on the other, to (2) enlargement of the concept to include social justice wherein the discussion runs to certain matters of social reform, and, finally, to (3) the inquiry as to whether tax measures actually achieve the purpose for which they were designed.

As a matter of fact, it would not be difficult to find authorities who conceive justice in taxation merely as a form of practical expediency. Ethical considerations have little or no weight with this group. The just thing is the expedient or practical thing of financing the state, according to this line of approach. The state needs revenue, it must be obtained from the most productive sources, sometimes taxes do, in fact, rest more heavily upon the poor than

n the rich, but that is inevitable in any system of taxation when he needs of the state are great; possibly, also, the state should onsider, in part at least, forms of taxation which can be paid by he taxpayer with as little inconvenience as possible, or which in he long run produce the least disturbance in industrial and social elations.

Further, the argument usually runs in the following strain: *Justice in taxation does not require rigid equality or narrow uniormity of treatment* Institutions that are socially harmful may be subject to peculiarly drastic taxation; that is to say, *justice in axation may take into account sumptuary considerations* Old taxes, which would not be used if they were not already entrenched in the fiscal and social systems, are permitted to endure; *justice takes cognizance of the fact, other things being equal, an old tax is a good tax by the very reason of its age* Indirect taxes which often weigh more heavily upon the poor than on the rich show no sign of disappearing; that is to say, *justice gives due weight to the productivity of the tax, its cheapness of collection, and convenience of payment, and balances these considerations against factors which are accustomed to be regarded as more fundamentally ethical.*

These propositions with respect to justice are broad enough to cover practically any kind of levy. If one follows this system of reasoning, no effort will be made to test each tax on its ethical merit but will ask only the question, "Does it perform an adequate fiscal purpose?"

Adam Smith, writing more than a hundred and fifty years ago, placed great emphasis on justice of taxation in his maxims or "canons." He held that a tax should be levied according to ability of the individual to pay, that it should not be arbitrary, that it should be certain in amount and convenient; and that it should be as economical as possible

He then enumerated four ways in which this fourth maxim of economy may be violated First, collection may require a rather elaborate organization with officials whose salaries "eat up the greater part of the produce of the tax," or whose perquisites may impose an additional burden upon the people. Second, the tax may "obstruct the industry of the people." He adds that in some cases violation of this rule could diminish or destroy funds which might enable them more easily to pay. Third, the forfeiture of funds through attempted evasion might "put an end to the benefit

which the community might have received from the employment of their capitals." And, finally, "by subjecting the people to the frequent visits and the odious examination of the taxgatherers it may expose them to much unnecessary trouble, vexation, and oppression." In summary, he adds that the "evident justice and utility of the foregoing maxims have recommended them more or less to the attention of all nations. All nations have endeavored, to the best of their judgment, to render their taxes as equally as they could contrive . . certain (and) convenient to the contributor, and in proportion to the revenue which they brought . . as little burdensome to the people."

Problems of Equity. The test of justice may be approached from another point of view. Should the tax levies be based upon the idea of (1) equal sacrifice among the taxpayers, of (2) covering the cost of the services the citizen receives from his government, of (3) the benefits that may be his, or, finally, of (4) the proportionate ability of the citizen to pay? In the tax literature of the last century or more, each of these ideas has been both condemned and supported. These concepts may be examined briefly At the start, it may be said that however ideal some of them may be as tests of justice, they present difficulties in practical interpretation and application.

For example, are there any criteria for measuring equality in sacrifice among taxpayers? A system of proportional taxation would not meet the requirement. It is obvious that a contribution of $100 by a person with an annual income of $1,000 would involve a far greater sacrifice than the taking of $100,000 from a person with an annual income of $1,000,000, yet both contribute the same percentage of their income. That is to say, a 10 per cent levy would take away from one person the necessities of life, but it would leave even luxuries of the other undisturbed

A somewhat better case could be made to support the sacrifice theory if the tax were made progressive, but although the tax imposed a greater sacrifice than before on persons of high income, it would still not reach the goal of equality. If the progression ran from, say, 10 per cent on incomes of $1,000 to 75 per cent on those of $1,000,000, the first group would retain for its own uses only $900 and the second would still possess $250,000.

John Stuart Mill was concerned with the equality of sacrifice theory when he said, "For what reason ought equality to be the

ıle ın matters of taxatıon? For the reason that ıt ought to be so ı all the affaırs of government As a government ought to make o dıstınctıon of persons or classes ın the strength of their claıms n ıt, whatever sacrifices ıt requıres of them should be made to e as nearly as possıble wıth the same pressure upon all, whıch, ıt must be observed, ıs made by whıch least sacrifice ıs occasıoned n the whole If anyone bears less than his faır share of the burden, ome other person must suffer more than hıs share, and the alleviatıon to the one ıs not, *ceterıs parıbus*, so great a good to hım, ıs the increased pressure on the other ıs an evıl. Equalıty of axatıon as a maxım of polıtıcs means equalıty of sacrıfice. It means apportıonıng the contrıbutıon of each person toward the expenses of government so that he shall feel neıther more nor less ınconvenıence from his share of the payment than every other person experiences from hıs."

In quest for a measure of sacrıfice a test ıs sought for somethıng whıch ıs not susceptıble of measurement. Paın ıs probably closely related to sacrıfice, ıf the former word be substıtuted for the latter ıt would be quıte clear that the quantıty of sacrıfice could not yet be computed

Second, as to the cost of the servıce. No doubt there are some cases ın which close approxımatıon of governmental costs ın renderıng the servıce may be made. Perhaps one would not go far astray ın a calculatıon of the cost of educatıon to students ın a particular hıgh school

In numerous cases there ıs no possıbılıty of even a reasonable approxımatıon of the cost of the servıce to the taxpayer One of the largest ıtems ın the federal budget ıs for national defense, and local governments spend large sums for local polıce protectıon. In neıther of these cases ıs ıt possıble to ascertaın ın any quantıtatıve manner what servıce the taxpayeı has receıved

Thırd, wıth respect to benefits. The ımplıcatıon in this theory ıs that persons should contrıbute to the support of their government ın proportıon to benefits receıved. A peıson who receıves great benefits should make large payments, but one who counts his governmental blessıngs as of small moment should be relıeved of heavy burdens Thıs argument encounters several objectıons Fırst, as wıth sacrıfice, there are no adequate crıterıa for the measure of benefits. Second, granted that such a test of justıce exısted, ıt would be ımpossıble of applıcation ıf one of the purposes

of government is to improve the quality of its citizens Millions of people receive benefits out of all proportion to their ability to pay taxes

Education may serve as an example No one can measure the benefits of instruction to students, but most persons would agree that these benefits are very great, both to the individual and to the community. Throughout the United States public instruction is practically free, in many instances free school books, free noon-day lunches, and sometimes transportation free to and from school are adjuncts to a student's educational career But in many thousands of cases, students who receive these benefits could not afford to pay for them Many persons in the middle and lower classes labor under similar disabilities with respect to police protection, hospitalization, provision for sanitation, to give only a few cases The well-to-do classes can provide for most of these items, but the poorer elements cannot. Thus a tax according to benefits would impose a burden on certain classes which they could not discharge.

The benefit theory seems also to suggest that a government has become some kind of commercial enterprise selling services for tax receipts This point of view cannot be maintained so long as it is held that one of the functions of the state is the preservation of general welfare To this end some persons are able to make large payments, others are not The general welfare has no relation to individual advantages and disadvantages, much less to individual sacrifices or benefits

In spite of its logical and many difficulties, the fourth concept, namely, ability to pay, is accepted today as the principle criterion which should guide government, as far as possible, in raising tax revenue. As shall be seen presently, it is not, and cannot, be applied to all kinds of levies With respect to ability, in many cases the government is no respector of persons or incomes The great need is for revenue, levies are imposed for this purpose But whatever the practice, this theory has wide acceptance, probably chiefly from a practical point of view

To state it briefly, the principle is that each person should contribute to the support of the state according to his ability It is assumed that a person with $25,000 a year has greater paying ability than one with $5,000 a year The federal income tax, a notable example of the application of this principle, is progressive It splits incomes into ranges or brackets, with small differ-

ıtials up to about $60,000. Thereafter, the spread among the ınges or brackets increases with the magnıtude of the income

As far as abstract, or social, justıce ıs concerned, the posıtıon f so-called tax experts as logıcians ıs not improved by accepting he canon of abilıty There is a strong suspıcion that the argument ṡ cırcular. Most persons assume that justıce ıs tested by abılıty 3eyond this assumptıon they do not go Probably thıs ıs the best .hat can be done by way of proof, and, as long as the communıty s wıllıng to accept both proof and practıce, the government pro-:eeds wıth thıs type of levy

But other questıons than justıce in the abstract are ınvolved What is the test of abılity? Does a man wıth an occasıonal in-come of $10,000 a year have the same abılıty as the person on a regular salary of that amount? Or ıs the abılıty of a movıe star who enjoys a brıef flash of popularıty, for whıch he receives a large income, the same as that of a busıness executıve whose salary goes on year after year? Is the abılıty of a man who maıntaıns a famıly on $5,000 the same as that of a bachelor with the same ıncome? These are matters that are of vital ınterest to indıviduals, and these condıtıons influence theır concept of justice

Further, ıf ıt ıs granted that those wıth hıgh ıncomes should pay on the basıs of abılity, what ıs the test or measure of abılıty? Does ıt ıncrease ın proportıon to ıncome, or more than in propor-tıon? The common practıce of today ın many forms of taxatıon ıs to use progressıve rates, but ıt would be possıble to apply the prıncıple of proportıonal taxes as ıs done wıth other kinds of levıes.

In addıtıon to the varıous crıterıa of justıce of tax levies just dıscussed may be mentıoned personal expenses and ıncome. These bases for measurıng justıce of tax payment mıght be regarded as corollarıes of the abılıty to pay theory

As the term ımplies, ıt has been proposed to use personal expenditures as a basıs for determınıng a person's abılıty to con-tribute to the cost of government because these represent personal outlays whıch presumably are ın proportıon to his ıncome. A few taxes, as on sales, are levied according to this basis. But as a general criterion, personal expendıtures cannot be so used, first, because the same proportion of outlay between rich and poor spent for personal consumption is by no means the same, and, second, much of this type of expendıture ıncludes necessaries which would prevent and deny the whole prıncıple of exemptions, as under the

entials income and many other taxes. In either case, such levy would be unfavorable to the middle and lower classes, and very favorable to the wealthy group

A somewhat better case can be made for using income as a measure of ability to pay because the real criterion of the taxpayer's capacity to make his contribution to the government is revenue received A sound system of taxes should only be levied upon and collected out of income after all necessary expenditures have been deducted Therefore, a tax which is taken out of income after necessary personal consumption and business expenditures have been deducted will not affect either the standard of living of the individual or the operation and expansion of enterprise

But there are difficulties and limitations in the use of income as ability to pay. The quantity of the income is not enough, the time when it was earned must also be taken into consideration An income might accrue one year and actually be paid at a later date; in which case, just what period represents the ability of the income taker to pay? Also, was the income *pure*, that is, without wastage of invested capital? Natural industries, as oil wells and coal mines, are gradually "worked out." Such slow dissipation of irreplaceable capital must be taken into consideration not only in levying a tax, but also in determining the ability of the income taker to pay. The nature and method by which the income was received must also be considered in determining ability to pay taxes, such as *precarious, funded, earned,* and *unearned* conditions The income may be derived from a very uncertain or precarious source, or it might arise out of a debt, such as script dividends of a corporation; or it might be earned by the individual out of his own personal skill and employment, or unearned from a source which will accrue regardless of his own personal presence or application.

In the last analysis, no one of these criteria can be used as a measure of the taxpayer's ability to contribute to the expense of his government; they must all be considered but not necessarily given the same weight at the same time. In general, the state does not look to the feeling of the individual in assessing its income, but to the monetary value of his taxable property; hence, for practical reasons the ability to pay theory is generally the one followed in determining the apportionment of the tax burden.

Economists and Justice Theories. While Adam Smith maintained that the subjects of the state should contribute to the

support of government "as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state," his successors in economic thought debated whether this canon of justice was more nearly satisfied with proportional or progressive rates

Among the defenders of the proportional principle was John Ramsay McCulloch. With regard to income taxes, he held that no tax on income could be a just tax unless it left individuals in the same relative condition in which it found them It would depress, according to its magnitude, all those on whom it fell; and it should fall on everyone in proportion to the revenue he enjoys under the protection of the state. Should it either pass entirely over some classes, or press on some less heavily than others, it would be unjustly imposed Government, in such a case, would be plainly out of its province, having assessed the tax, not for the legitimate purpose of diverting a certain proportion of the revenues of its subjects to meet public exigencies, but that it might at the same time regulate the incomes of the contributors, that is, it might depress one class and elevate another

McCulloch realized that equal taxes on property or income are undeniably more severely felt by the poorer than by the richer classes, but that the same is true of every payment which does not subvert the existing relations among the different orders of society. He argued that this hardship was a consequence of the inequality of fortunes, and to attempt to alleviate it by adopting a graduated scale of duties would really be to impose taxes on the wealthier part of the community for the benefit of their less opulent brethren, and not for the sake of public revenue The principle of graduation of tax levies cannot be carried to a certain extent, and then stopped

Apparently McCulloch's concept of justice with respect to state action on taxes was that the state should hold the balance among its citizens equal Inequalities, which he did not deny, were matters to be settled—if at all—outside the tax machinery It was not the function of government to use its tax machinery for rectifying injustices which might have arisen in various fields of the economic system. Moreover, McCulloch argued that once the progressive principle had been adopted, the authorities thereby abandoned any standard by which justice in the levies might be tested. For example, where should progression start, and where should it stop? And why at those places?

By way of comment on this point of view, Professor F W. Taussig has this to say. "A somewhat different view, but one leading to the same result, is that the existing distribution of property and income should not be disturbed *by taxation*. If it is to be disturbed, let other machinery for doing so be adopted. This view implies neither approval nor disapproval of the gulf between rich and poor, but simply indifference and aloofness. The taxgatherer, it is said, should not be distracted by having to consider such large and difficult social questions His task, even in its simplest form, is troublesome enough to devise ways of securing the needed revenue without arousing discontent beyond endurance This may be described as the simple financial principle of taxation, according to which taxation should concern itself solely with the problem of raising the money for public expenses. It leads, like the view first described, to proportional levy and to the rejection of progression "[1]

Attention should now be directed to the other side of the case, which was upheld by Jean Baptiste Say, among others He believed that taxes should be laid in a manner to equalize the burden—that justice would be best served in this way After abandoning the attempt to distinguish between "necessaries and superfluities" he argued that all that was known certainly was that the income of a person or a family might be so confined as barely to suffice for existence, and might be augmented from that minimum upwards by imperceptible gradation, until it embraced every gratification, each being one step further removed from the limits of strict necessity, until at last the extreme of frivolity and caprice would be reached, so that, if it were desired to tax individual income in such manner as to press lighter in proportion as that income approached the confines of bare necessity, taxation should not only be equitably apportioned, but should press with progressive gravity "Thus a tax merely proportionate to individual income would be far from equitable," he maintained

The statements of McCulloch and Say present the two sides of the case A close reading of what they have said will reveal the fact that both arguments are lacking in fundamental concepts The authors assume ideas which are not stated In short, what is justice in taxation? This concept cannot be defined without a statement of the goal to be attained, a goal which is directed to the "greatest good for the greatest number"

[1]F. W Taussig, *Principles of Economics*, II, 486

Justice is an ideal, an end to be achieved. It is impossible to decide whether this or that particular tax, or what tax system, is just until it has been determined, first, what the ideal is, and, second, whether the tax in question operates as an approach to this ideal.

Rate of Levy and Justice. The fact that taxation should be levied according to the principle of ability to pay, taking into due consideration the other theories, does not settle the whole problem of justice. After all, taxes are levied or fall on individuals and corporations in particular; not on them in general. Once having settled upon ability as the criterion, the next and most difficult question is how can this ability be measured? How can this burden be equitably distributed among all the taxpayers in a particular community? Some taxpayers are poor; others are well-to-do to wealthy. Some own personal and real, tangible and intangible property; some do not. Some of this property is income producing, some of it is not. It is obvious that a flat sum levied upon each citizen—a per capita contribution to the state—would not be equitable In early days, when property and income were about equally distributed, a flat sum levy upon each taxpayer was equitable, as in a rich man's club where they apportion the expense on a pro rata basis But at present, in a highly complex, industrial community where there is such wide variation of wealth and income and so many kinds and varieties of property, more refined methods of tax levy and of tax rate determination must be devised The great variety of functions of government has its bearing

In practical operation, the base is the total property valuation or income of the taxpayer, and the rate is the per cent taken. The base of the taxpayer is determined by evaluation and assessment; the rate is fixed by legal process of the legislature or by provisions in the constitution In relation to the base, the rate may be proportional, progressive, degressive, regressive, or apportioned

If the rate is proportional, it remains the same regardless of the amount of the base on which it is imposed A common example of a proportional tax rate is the tax on real property which is a fixed percentage of the value of the property, regardless of what that value may be.

If the rate is progressive, the increase in the rate is in direct proportion to the increase in the base If the rate is progressive

and is 1 per cent on $1,000, it is 2 per cent on $2,000. In that case, the tax on $1,000 would be $10 and the tax on $2,000 would be $40.

If the rate is degressive, it increases when the base increases, up to a certain limit; but the increases in the rate are not proportionately so great as the increases in the base. The rates established by the 1948 Income Tax Law illustrate a degressive tax. When the taxable income increases, the tax rate increases until the rate becomes 91 per cent; but the percentage of increase in the tax rate is always less than the percentage of increase in the taxable income

If the rate is regressive, it decreases as the base increases. In most states, automobile license plates, which represent a tax, cost the same amount regardless of the value of the automobile A $10 license represents 2 per cent of the value of a $500 car but only .3 per cent of the value of a $3,000 car.

If a tax is apportioned, the amount to be collected must be distributed among taxpayers on some basis, as according to classes of property, or according to population as the Constitution requires for levies of direct taxes.

Requisites of a Good Tax. Along with coinage debasement, imposition of taxes was one of the most grievous methods by which the early kings heaped onerous iniquities upon their people Therefore, closely akin to justice and equity in taxation is the adoption and use of a good system of taxes. Many economists deny the existence of such thing as a *system* of taxes, instead, they insist that a state may have a motley or heterogeneity of sources of income but hardly an integrated system of taxes In a few instances, as the estate and gift taxes of the federal government, two or more sources of income have been so integrated as to be complementary. In the case of estate and gift taxes it has become impossible for a person to pass his property to his heirs so as to avoid one of these taxes. That the various sources of income of the state have been integrated generally into a system of taxes can hardly be supported. The three levels of government in the United States have been grabbing for every available source of income without too much regard for justice and equity with the result that multiple taxation has almost become the rule, as in the case of gasoline which is taxed by all levels of government The local units of government have relied mostly on direct taxes on real and personal property, the states and federal governments

have resorted more to taxation of incomes, inheritances, estates, sales and certain business levies. In 1948, for example, the federal government derived over 70 per cent of its total income from direct taxes on individuals and corporations

There is always available to any government at a particular time a great variety of sources of income or tax bases upon which it may impose levies Some of these are good; some are bad; some are indifferent. The requisites of what constitute a good tax, therefore, becomes a very practical question to the legislator and to the public. Fortunately, these requisites can be reduced to a comparatively few fundamentals

The first requisite of a good sound tax is its qualities for producing revenue In other words, is it fiscally adequate? Except in comparatively few instances, the primary purpose of a tax is to produce revenue for the support of state activities, and it must pass the test of fiscal adequacy In considering the fiscal productiveness of a particular source of tax income the time element may become very important A particular levy such as certain tariff duties or income taxes, might produce large quantities of income immediately, only sooner or later to disappear because of shifting or because the base is taxed out of existence On the other hand, the tax may yield little in revenue at first, but great quantities after it has become established A case at point is the income tax. When it was first used the problems of levy were so great and the yield so little that many predicted that taxes on incomes would soon disappear as a source of revenue But in 1948, for example, the federal government derived almost $22,000,000,000 from a tax on individual incomes, or about 40 per cent of the total receipts for that fiscal year

A tax may not be wanted for its revenue, but as a means of control or the elimination of some undesirable form of consumption or production. In such case, does the proposed tax have that quality? In the use of any tax, there is a relation between the rate per cent and the amount of yielded revenue In the early stages of any tax, the revenue yield seems to observe the economic law of increasing return until the optimum point is reached after which the law of decreasing return seems to operate

Granted that a tax has passed successfully the test of its primary purpose either as a producer of revenue or as a means of control, it must also be economical to collect and have a

minimum effect on all process of production and consumption. Adam Smith, in one of his canons of taxation, said, "Every tax should take as little out of the pockets of the people for collection as possible." Some taxes, as income and certain excises, yield a very great net revenue above costs of collection. The federal income tax on individuals costs about 3 cents on the dollar, or 3 per cent, to collect, and a few excises, such as that on tobacco, cost less than one-half of one per cent On the other hand, a few taxes such as certain tariff duties, poll or capitation taxes and those on opiates and narcotics cost much more to collect than they yield, but they are levied for protection or exclusion purposes only, and their cost of collection and administration is not important

Every tax has its economic effect on production or consumption for good or for evil, but some have more effect than others Therefore, in the choice of a tax, its direct and indirect economic social effect on the tax system as a whole must be taken into account, and if it should prove that certain taxes unduly discourage production or consumption, lower the morale of the community, provoke discontent, and check the accumulation of wealth, they should be given up for others that will not produce these unfortunate results, or that will produce them in less degree

Taxes may also be levied so as to affect the individual's ability or willingness to produce or to save. Suppose that an individual should say that he would need $5,000 a year income after he retired If this income was capitalized at 5 per cent, he would need to save the total sum of $100,000 Now suppose a tax of 10 per cent, or $500, was imposed on his savings This tax would cut his yearly income to $4,500 He would either have to get along on this reduced amount, or would have to save an additional $11,000, and save by working harder, or by greater saving during his productive years This behavior is very common of individuals or of corporations where an additional expense is capitalized and savings or production are increased to meet it

A good tax should be simple, that is easily understood by the taxpayer, and elastic as to volume of revenue produced As previously stated, when the income tax was first used its problems of administration were so complex that not even the tax official seemed to understand them The United States Supreme Court varied widely as to the definition of net income The excess profits tax seems to have fallen into this same category

The volume of government expenditure varies rather widely from time to time If these increased amounts cannot or should not be raised by short-time borrowing, in general it would be better to increase the rates on certain old tax bases rather than to bring in new sources of income. Therefore, the best kind of tax is that one which also possesses a high degree of elasticity.

Many such taxes, such as the general property, income, and sales taxes, to mention only a few, possess elasticity to a very high degree, and, from this point of view, are very important members of the general tax system. The English, for a long time, used taxes on tea for expanding or contracting their revenue to balance the current budgets.

These are not all the tests to which a good tax should be subjected to be acceptable as part of a tax system, but are the most important ones Whether a tax is legal or illegal, constitutional or unconstitutional, is relatively unimportant. These problems can, in general, be met rather quickly. The fundamental question of a tax is, is it economically and socially sound and acceptable to the people Are all these various taxes complementary and so integrated as to constitute a system? Is this system diversified and flexible, and does it impress the tax paying public as being equitable and just. High as taxes are, and much as it seems that they should be reduced, yet their equity and justice seems to be the most important problem. The federal government and most states and cities maintain bureaus of research on taxation to determine just where the rate on a particular base should be put to yield the maximum revenue with a minimum effect on the whole economy

Socio-Political Theory of Taxation. For years some tax authorities have insisted that the state should use its tax powers not only for the purpose of obtaining needed revenue, but for a readjustment of some of the inequalities in the economic system. The German economist, Adolph Wagner, was an exponent of the socio-political theory of taxation

As a background for his tax theory Wagner presented the following conditions: great evils exist under the competitive systems; the distribution of both income and property under free enterprise has a social influence; by virtue of its varied activities the state is a factor, both directly and indirectly, in the distribution of wealth and in the position of the social classes; and it

is also a factor through its systems of taxation and methods of handling the public debt. Because of these conditions he claimed that the fiscal science had developed two demands: first that the state should so order its expenditures, tax systems, and loans as to remove certain economic and social evils which had attended them in the past, and, second, that the state, by adopting appropriate policies, should remedy evils which were not due to its previous action in financial or other matters To come to the real essence of the theory: From the second demand it follows that, in the domain of public finance, expenditures should increase in order to enable the state to assume new functions, that taxation, in addition to serving the purely financial purpose of providing sufficient revenue, should be employed for the purpose of effecting a different distribution of wealth from that which would result from the working of free competition upon the basis of the present order.

In the further development of this theory, Wagner makes a distinction between "unearned" incomes, those derived from property, and "earned" incomes, or those resulting from labor He is of the opinion that large gains, and the resulting accumulation of property, usually results more or less from good fortune as well as from the personal contribution of the recipients Equality, in his theory, is considered to mean taxation as far as possible in proportion to ability to contribute, which increases more rapidly than the absolute amount of a person's income or property increases. Therefore, the socio-political theory demands progressive taxation of larger incomes and the rejection of mere proportional taxation Furthermore, it demands heavier taxation on funded incomes than on incomes derived from labor.

It goes without saying that this theory has not gone unchallenged. Professor E. R A. Seligman, for example, questions the historical aspects of Wagner's expositions. He says that it is not true historically that tax policies of the nations have been adjusted solely with an eye to fiscal policy He refers to protective duties (on imports), a system which has been used for some centuries; also taxes on luxuries have been mere sumptuary laws designed as much for the purpose of checking consumption as raising revenue; excise taxes also have been levied at times for social as well as for fiscal purposes

One might say that Seligman has yielded something to the socio-political argument of Wagner. At least, he has granted that taxes have been laid for social as well as for revenue purposes

The fiscal and social fields have not been kept separate Wagner's contention is that they should not be kept separate

But Seligman qualifies his point of view when he admits that it is not allowable to confound this undoubtedly social element in all fiscal policy with what Wagner calls the socio-political, or what may be called more correctly the socialistic element From the principle that the state may modify its strict fiscal policy by considerations of general national utility to the principle that it is the duty of the state to redress all inequalities of fortune among its private citizens is a long and dangerous step. He holds that justice, as it ought to be contemplated by the state, consists in "holding the balance equal." No one should be given an undue advantage, each person should enjoy equal rights before the law; and each should have an opportunity to develop his own talents and resources

Whether one would classify public school education with the appurtenances that now have been added to it, free hospitalization, and dozens of other more or less free services, under the socio-political category of what Professor Seligman has called the "principle of general national utility" is a question for the dialectician to decide In practical lawmaking the authorities decide what line of action they think is desirable and have no thought of classification At that, in many instances, whether they know it or not, they may be moving in the direction approved by Wagner

Other Concepts of Justice In Taxation. The student following the historical development of this concept will observe that the emphasis has been on distribution With some authorities the exposition makes this perfectly clear; with others the purpose is partly concealed in the phraseology For example, when Wagner speaks of taxation to enable the state to assume more and more functions, he has in mind an economic organization that will provide a wider distribution of benefits than exists under present arrangements.

The shortcomings of this type of approach lie in the fact that distribution of economic goods cannot be separated from production. Whatever affects the latter has repercussions on the former It is assumed in most arguments presented on former pages that tax devices which promote a "better" distribution do not impair the facilities for production. This assumption cannot be sustained If borrowing is excluded, modern governments have practically

no source of income beside that produced jointly by labor and capital. Any kind of tax, whether on home, chattels, or intangible property, falls eventually on income, or else the value of the property is extinguished No one would venture the argument that a tax system was just which weighed so heavily on production that the quantity of goods and services available for distribution declined Hence, a discussion of these ideas of distribution leads us back to an analysis of the operation of economic forces

The conclusion from the discussion of incidence, pressure and escape was that no person or class is free from the immediate, or ultimate, effect of a tax It is likewise true that when economic progress becomes a feature of a country no class is denied its benefits Some are blessed more, others less, but in spite of inequalities all receive either direct or indirect advantages

It cannot be decided whether a tax policy is in accordance with "ideals of justice" until a decision has been reached on two points first, a definition of the ideal, and, second, a decision as to the kind of policy that will achieve the ideal

Social ideals are impossible of definition Even authorities do not agree, except in very general terms The reason is that ideals are the outcome of personal background, tradition, experience, reasoning, and emotion One may come rather close to clarity, however, in one division of social life, namely, the economic Among progressive people, the economic ideal looks forward to more food, clothing, shelter, entertainment, leisure, security, and less gruelling labor in the production of these things Those measures are considered as socially just which tend to the achievement of these ends What works in the contrary direction is unjust

Many authorities seem to conceive "justice in taxation" as an abstraction It is far from this The concept must be derived from the actual forces at work in society As is already known, some of those forces are benevolent and some are malevolent. Society is the locus of many crosscurrents, an expression of individual likes and dislikes, reason and unreason, spirit of cooperation and the reverse. A tax, or tax system, must be studied in the light of those conditions, and they are not abstract

It has been explained elsewhere that economic progress—the creation of a greater abundance and better distribution of economic goods—is an outcome of production, saving, re-investment,

of improved mechanical methods of production, and of more perfect human skill. Most of those things require continual additions to capital. The additions appear first as saved "funds"; later these are converted into concrete things, such as machines, tools, equipment of all descriptions. Policies which thwart these greater achievements are properly considered unjust. Tax systems which work against the attainment of these economic ideals are likewise unjust.

Whether or not greater abundance and diffusion can be obtained through the continual widening of the functions of government is still an issue. A discussion of this question does not belong in a treatise on public finance.

The other important moot question is whether the needed reform can be better achieved outside, rather than with the aid of the tax machinery. Tax measures and reform measures can be greatly simplified if they are treated separately Associated with each problem is a technique which is more or less peculiar to that problem. The questions of control of railroads, factory legislation, regulation of monopolies, among others, are complicated enough in themselves to demand separate treatment To mingle these problems with tax legislation adds to the confusion Corrective measures should be applied where necessary But each problem is a case by itself For the benefit of clear analysis and effective remedy, each issue should be handled as such The tax gatherer, as has been said, should not be distracted by having to consider such large and difficult social questions His task, even in its simplest form, is troublesome enough· to devise ways of securing the needed revenue without arousing discontent beyond endurance and, it might be added, without setting into operation forces which he cannot understand, and which are beyond his control.

Summary. Justice in taxation takes on a very practical aspect. In the United States there are some one hundred forty millions of people, some wealthy, some poor, with many kinds of real and personal property. Some of this property is income producing; some is not The question then arises. Under such varied conditions, how can the tax burden be imposed upon the total population in a just and equitable manner, so that each person will contribute his fair and proportionate part toward the expenses of government? Justice, therefore, becomes a question in particular rather than in general.

The problem of distributing the burden of taxation was simple when property was held in common or was equally divided. But with the development of a great variety of property and with the unequal distribution among the taxpayers, new criteria for measuring their capacity to contribute had to be devised, the principle ones being (1) expense of the individual to the state; (2) individual benefit; (3) ability of the individual to pay; (4) individual sacrifice; (5) personal expenditures of the individual, and (6) individual income.

The first, or expense to the state theory, is posited upon the supposition that each individual as he comes into the political community adds an increment of expense to the state and, therefore, he should be required to contribute accordingly.

The benefit theory presumes that each individual will contribute according to the utility which he receives from government on a sort of *quid pro quo* basis The difficulty here is in measurement The state gives many common benefits, most of which are intangible and incommensurate A few, such as the insane, delinquents, and dependents, derive a greater benefit from the state than others. In a few cases, the courts have held that there is a relation between the amount of property held or income received and the protection of the state Such theory is hardly valid when considered on the basis of each individual The people of the United States should, as a whole, get value received for the total federal expenditures.

The ability to pay theory is made dependent upon the amount of property or income which the individual has

The equality of sacrifice theory has been advocated by many as a measure of tax liability, but it, too, fails because of its incommensurateness

The personal expense of the taxpayer as a criterion of his proportionate contribution to the state is not adequate because it makes no distinction between necessary and luxury consumption, and disregards the existence or non-existence of surpluses However, in a few cases, as sales and consumption taxes, this theory seems to be followed, at least in part

Income, gross and net, is regarded by some as a complete measure of one's contribution to the state In fact, levy on that source of revenue to the state is so equitable and just in the minds of a few people that they would finance the government entirely out of levies on *net income*—a sort of single tax.

A sound tax system should provide for collection and payment out of income; but there are difficulties in the use of income as the sole measure of ability to pay. In general, quantity of income is not enough. The time element, when it was or is to be received, becomes important Was the income pure, that is, without wastage of capital, as in the case of exploitation of natural, irreplaceable resources? How was the income obtained, whether precarious, funded, earned, or unearned? Then, finally, was the income free, or was it to be used in the support of others? These are a few questions to be considered when it is proposed to use income as a measure of tax liability

In the final analysis, no one of these measures can be used as the sole criterion. All must be taken into consideration in determining the apportionment of the burden, but, perhaps, the ability to pay is the one most generally applied by the modern state

The fact that taxation is levied according to ability does not settle the problem finally The most difficult question is How can that ability be measured? How can the burden be equitably distributed among the individual taxpayers?

A flat amount or a fixed rate taken from all taxpayers would not be equitable because of the unequal distribution of property. The general property tax uses the fixed rate, but it violates the canon of equity in disregarding the amount of the bases of the taxpayers

In the case of progressive taxes, the rate increases in proportion to the base. This method more nearly approaches equality of sacrifice. As wealth increases, there is an acceleration of ability to pay, but the rate could hardly reach confiscation, unless it is to be employed as a means of eliminating large fortunes and incomes. In order to avoid total confiscation, the rate is usually made degressive, *i.e.* it increases at a diminishing rate, until it reaches a maximum, then it levels off proportionate to the base. In not a few cases the rate may become absolutely less as the base increases, thus becoming regressive

In the final analysis, all the fine-spun theories and casuistical reasoning in regard to abstract justice must give way to the practical needs of the state It is revenue that the government needs and must obtain even at the sacrifice of some of the elements of justice.

TEXT QUESTIONS

1. Why can't justice in taxation be separated from the concepts of shifting, incidence, diffusion, and escape?
2. How did Adam Smith say his canon of taxation, that taxes should be as economical as possible, may be violated?
3. Give four concepts of equity on which tax levies might be based.
4. What are the weaknesses of the benefit theory of taxation?
5. What are some of the difficulties and limitations in the use of income as ability to pay?
6. Why is the personal expense of the taxpayer as a criterion of his proportionate contribution to the state not adequate?
7. Explain McCulloch's concept of justice.
8. What must be determined before you decide if a particular tax or tax system is just?
9. What is the base for taxation purposes, the rate?
10. Explain proportional, progressive, degressive, regressive, and apportioned taxes and give an example of each
11. Why don't we have an integrated *system* of taxes?
12. What types of taxes are relied on mostly by local governments, by state and federal governments?
13. Discuss the requisites of a good tax
14. Give some examples of taxes levied as a means of control.
15. Which taxes possess elasticity to a high degree?
16. What is the socio-political theory of taxation?
17. What two demands did Wagner say the fiscal science had developed?
18. What is earned income, unearned income?
19. Which class of tax rates most nearly approaches equality of sacrifice?

RESEARCH TOPICS

1. Obtain through your local tax assessor's office a list of the principal taxes imposed by your state, and, in your judgment, test each of these sources as to justice and equity. Also how do they meet the other tests of good taxes? Would you say that these various sources of state income have been integrated into a *system* of taxation?
2. In your city or other local unit of government, how do the rates of the various taxes vary with the bases upon which they are imposed? Do you find any instances of optimum rates, of rates that are beyond the optimum?
3. Examine the major sources of your state or city or other local unit of government as to *elasticity.* This can best be done by plotting the cyclical trend on graph paper since, say 1929, and superimposing the tax yield of as many sources of tax income as you can obtain the data for this same period What taxes show a distinct

lag during depression, what show a constant return; and what show an increase? Could you by this means recommend a good system of taxation for your state or city?

4. Can you by any means arrive at the amount of property and income in your community which escapes taxation, either in part or entirely?

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CHAPTER 20

TAX EXEMPTIONS

One of the most important features of any tax system is the exemptions that are granted under the laws. In some cases there is complete freedom from impost; in others there are exemptions in varying degree depending upon the conditions Freedom from impost may be applied to individual, corporate, and institutional property, to personal and corporate incomes, to commodities and services, to government property whether in land or productive enterprises, and to government securities, federal, state, and local. In each case the law specifically enumerates the exemptions. This treatment is applied to many different kinds of items, and the value of property or services thus freed from impost runs into billions of dollars. For example, in an estimate of wealth and income of the United States for 1922 some $20,000,000,000 out of a total of $299,000,000,000 of real property was exempt [1] Again, in 1937, upwards of $69,600,000,000 of all grades of government bonds bore exemptions either from normal income tax and surtax, or from the normal tax but not the surtax [2]

Since each particular tax law defines its own exemptions, all such specific cases will be discussed when each form of tax is studied later In this chapter only general principles and cases of tax exemption will be discussed

Exemptions, Evasions, and Escape. For one reason or another, large amounts of property which are taxable under the terms of the laws are not reached This is notably the case with intangible property under the present operation of the general property tax, and to some extent, even with tangible property. In many cases, only a small percentage of personal property gets on the taxbooks In addition, in the complicated process of shifting, persons upon whom the impost is laid in the first instance pass it on, in whole or in part, to other layers of producers or suppliers and, ultimately, to final consumers, thereby transferring the burden. It might be argued that the framers of the laws in many instances intended it to work in this manner, but, at that, the procedure is a form of

[1] *Statistical Abstract of the United States*, 1936, p 272.
[2] *Ibid.*, 1938, p 210.

escape. Furthermore, various loopholes exist in the statutes through which a considerable amount of property escapes, as with certain family corporations and some forms of organization under foreign laws Analogous cases are the transfer of property from one tax jurisdiction to another on or about the date fixed for the declaration of the assessment.

Methods of evasion and escape are legion, and it is doubtful whether all such cases can be reached, no matter how carefully the laws are drawn A statute must necessarily be couched in rather general terms, and for that reason methods employed by particular individuals may keep them within the letter of the law while at the same time escaping the spirit of such measures. Strictly speaking, however, the term "exemption" applies only to those cases freed from levy by the terms of the law

In a sense, the question of escape is linked with the time-old struggle of one class to impose the burden upon another As was explained earlier in the text, such clashes were extant in colonial times, notably among large land owners and between commercial and other classes. The latter looked with disfavor on exemptions which land (or colonizing) companies enjoyed and sought to place some of the burden of support of government on them In the southern states, the planters, who were also large holders of landed property and who usually dominated the legislatures, attempted to devise tax methods which would largely exempt them from levy on their land. Even today some kind of struggle continues, as with the attempt of rural communities to favor tax policies which shift as much of the burden as possible to the urban areas. Thus it is that "the history of modern taxation is largely the history of class antagonisms," with tax exemptions as often one of the major causes

Reasons for Exemptions. Whether or not any property or service should be exempt is a debatable question. One thing is certain: It is not the idea of constitutional government that any citizen should be exempt from the duty of contributing to the support of the state on personal or class considerations. The conditions existing in France previous to the French Revolution, when all taxes were imposed upon the third estate (the clergy and the nobility being exempt), have entirely passed away Such exemptions as exist at the present time must stand the test of general expediency and of being capable of expression in some rule of

general application. Exemption from taxation is not to be regarded as a personal or class favor; instead, taxation is an obligation upon the person to support his government

Even in this case "expediency" is a very broad term. It may be political, or social in the wide sense, or economic. It may involve matters of local consideration, as with tax exemption for a term of years to industrial plants in consideration for their choosing a location in a certain town or state; or it may be a matter of national interest. Within this general framework exemptions are devised, but the favored person or persons could hardly claim freedom from impost on any existing principle of taxation.

The clearest cases for justifiable exemptions are found in institutions dedicated to education, philanthropy, charitable purposes, scientific research, and possibly in certain types of non-profit organizations whose general purpose is social betterment Hospitals, eleemosynary and religious societies generally fall in this exempted group. In such cases it may be urged with reason that these enterprises are engaged in work in which the state has, or ought to have, an interest, or which the state would otherwise have to perform Whether or not the conduct of such enterprises in the hands of private organizations results in more effective work than when handled by the state may be open to question In some cases it is better done, in other cases it is not But, at least, there is some value in the freedom to conduct such matters according to the dictates of private judgment

This is a principle which democracy has elected to follow and it finds no better application than in educational, religious, and charitable enterprises It may be urged also that in private hands the work is more personal and individual, and possibly more sympathetic with individual needs, than when organized under supervision of the state. Humanitarian purposes are sometimes served best when the work becomes a matter of private concern

Religious groups are non-profit organizations, their existence as organizations depending upon contributions of members, and adequate support is sometimes hard to obtain. To burden such groups with taxes would severely handicap their work To be sure, the state can and does in some foreign countries maintain a national religious establishment In such countries, the maintenance of religious institutions becomes a state affair, and whether

the church, under these conditions, retains the freedom that exists when it is independent of the state may be open to question.

With respect to education, the state does maintain an extensive establishment, in America at least, extending from kindergarten level to the university, including higher technical training in the professions State educational property is generally exempt from taxation. Should the same privilege be extended to private educational establishments, especially those in the non-profit group? Again, the argument with respect to exemptions is the same as with other charitable institutions The state could tax the private organizations in which case it would greatly handicap their work, in some instances drive them out of existence. But it may be reasonably claimed that the state has an interest in the maintenance of some education in private hands. This permits the largest measure of freedom from political interference, preserves to the fullest extent the freedom of thought and investigation and, of course, the freedom to expound the doctrines of science (denied in at least one case in the teaching of the theory of evolution), and permits greater flexibility in making educational experiments, which are sometimes denied public educational institutions.

But with regard to exemptions, a distinction is necessary Granted that it is feasible to exempt the plant of private educational institutions from taxation, should their liquid endowments also be exempted? It can be said in favor of this policy that income from tuitions rarely covers operating expenses. The cost of education per student exceeds, sometimes very greatly where expensive equipment is required, what the student pays in tuition and fees Thus taxation of endowments would impair the ability of such institutions in the rendering of service.

A second general series of questions relating to exemptions is involved in the operation of the state. For example, should the state tax its own property, the salaries of its officials and other employees, its securities, whether interest or principal? The problem would be simple if a government were completely unified, that is to say, if there were no such divisions as federal, state, and local jurisdictions, each requiring support, and each with its own list of employees and its own securities outstanding. In the case of a unified state, the only advantage in the taxation of its own property would be to clarify its operations. Income could be set against outgo in such a manner as to indicate the actual cost of administrating its properties. But such a process would not in-

crease real income to the state, nor would it relieve taxpayers of any of their burdens Other considerations must be taken into account where the state operates productive property, as will be explained presently

The case is more complicated with several more or less sovereign jurisdictions existing in a given territory, all of which are, perhaps, to some extent overlapping The question of sovereignty, however, raises no particular difficulties. It is within the realm of reason that the taxation of property of one authority by another is not an infraction of the principle of sovereignty, although there are strong arguments to the contrary.

The chief difficulty lies in the fact that such a program of taxation would lead to endless confusion Presumably the federal government would be compelled to make its tax rates uniform throughout the country; but each state would decide upon its own rate Moreover, in case of the national domain, the federal government owns many millions of acres of land, notably in the western states Much of this property is desert, semiarid, or mountain side But what the attitude of the states would be in assessing this property cannot be known unless the experiment is tried Already, some western states complain that they are denied revenue from federal property, which, in this case, includes both productive and unproductive possessions

Exemption of government property is more largely a matter of comity and of tradition than of principle Once one government begins to tax the property of another, taxation would run rampant.[3] The power to tax is the power to destroy, as well as the power to preserve. A glimpse of what would happen is found in a statement of Fiorello LaGuardia, former mayor of New York City, in commenting on federal taxation of state and municipal securities: "If you tax the bonds of New York City I am going to tax every bit of real estate the Federal Government owns in New York City . It will cost the Federal Government millions more in expenses than might be raised "[4]

The exemption of government employees from taxation is a different matter. Salary payments to employees are private incomes and for the personal use of the recipients. In this respect there is no difference between the receivers of income from public and private sources. Moreover, from the point of view of principle,

[3]McCulloch v. Maryland, 4 Wheat 316 (1819)
[4]Quoted from *Wall Street Journal*, July 6, 1939

the same duty to contribute to government in proportion to ability rests upon employees of government as on persons employed in private enterprises To exempt one and not the other places the non-exempted person in private industry at a disadvantage. About the only argument in favor of exempting public employees is that the government might be obliged to pay higher wages, thus increasing its expenditures

Here, too, the question of sovereignty is raised. The argument has run for many years that "each (government) is sovereign within its own jurisdiction, and the integrity of the state as constituted demands the continued exercise by each grade of government of all powers and privileges with which it has been entrusted."[5]

On this basis has been built up reasoning to the effect that the salaries of officials paid by one grade of government cannot be taxed by another. There is in this policy Chief Justice Marshall's idea that the "power to tax is the power to destroy " The trouble here is that the argument is based on an abstraction, which is not true to the fact It might be true if either the state or the federal government could tax the employees of the other at a higher rate, or on a different scale, than that established for other citizens But this is not the case All citizens and all government employees within a given political division would have to be taxed at the same rate and on the same scale under the rule of uniformity and equality It can be taken without question that no one grade of government will destroy itself by tax measures which would render impotent, if this were possible, another grade of government

In regard to salaries, another type of exemption is found in the provisions of state and federal income tax laws The provisions of statutes change from time to time, but whatever their composition, certain deductions are allowed, such as for dependents, or a portion of earned income; these are to all intents and purposes exemptions But, in addition, exemptions are allowed for incomes below certain amounts. Incomes below a certain net figure are freed from the payment of surtax This, again, is not entirely according to any principle of taxation Such exemptions are sometimes for social, sometimes for administrative, reasons.

For some time there have been persons in Congress who have been urging the lowering of the exemptions on personal and cor-

[5]H. C Adams, *The Science of Finance*, p. 318.

porate incomes. Bringing the lowest incomes within the range of the tax collector is mainly a matter of driving home to the majority of citizens the idea of good citizenship. Of necessity, the rate would have to be low, taxable incomes small, and the amount collected also small. All things considered together, the trouble of collecting and checking returns would hardly be worth the effort to cover the added amount into the Treasury This practical difficulty has had much to do with determining the point where the income tax should begin Something might be gained by putting people in the low ranges to the trouble of making returns, thereby making them tax conscious, that is, aware of the existence of the tax

Another remark should be added on the matter of exemptions It may be taken for granted that one of the main ideals of the state is to perpetuate itself, or better, to gain continuous existence with advancing standard of life for its citizens For this purpose adequate revenue is necessary. Thus it may be taken as a maxim of government finance that the sources from which incomes arise should not be impaired; in other words, tax measures should not dry up the sources from which the government gains its support Whether or not this involves the question of exemption depends upon conditions New or rising industries with an ultimate promise of a successful future may be compelled to labor for some years under adverse conditions To burden them further with a tax might be the critical factor which decides whether they live or die. Under such conditions temporary tax exemption may be a desirable policy But it should not be made a condition of continuous existence of such enterprises

Hitherto little or nothing has been said about the taxation of productive property (perhaps commercially productive) in the hands of government Should it be kept exempt from taxation? In some cases, government has a monopoly of production and distribution, in others it is merely a competitor with private enterprise In not a few cases, the state engages in certain economic endeavors as instrumentalities of government, in other cases, as one of the competitive enterprises

First as to monopoly Various purposes are involved Sometimes exclusive government operation of certain types of public functions is associated with the idea of sovereignty, as with the coinage of money, fixation of weights and measures, sometimes the object is to gain cheaper service than is thought to be possible with the private conduct of a given business, as with some present

power developments in the hands of the federal government, sometimes the purpose is to render a service below its actual cost, with the expectation that people of small means will gain an advantage which they could not otherwise obtain; still another purpose is to carry an enterprise through its development stage with the expectation that ultimately, when it has been put on a paying basis, it may be turned back to private operation, an idea that was once involved in the Shipping Board fleet, now the Maritime Commission. With full knowledge of cost conditions, vessels were often operated over non-paying routes for the purpose of developing the trade. In some cases the purpose may be to give government a better control than would be possible with private operation over the sale of some commodity that is thought to be injurious to consumption, as in some instances with the regulation of liquor traffic. Then, finally, government may use monopoly for the purpose of adding to its revenue, if it is willing to charge what the traffic will bear

Whether or not a government is entitled to exemption of its property and service depends upon the purposes involved. For example, it does not accord with reason that where the purpose is added revenue, a government should tax itself. Here the real issue is whether greater revenue would result under government or private operation Government monopoly operations are much more prevalent in some European countries than in the United States, where the main idea has been to render a service at or below cost, as with water supply and power in the case of local units, and the post office and a few great power projects in the case of the federal government. European government monopolies are mainly for revenue, in some instances, as the post office and telephones of England, such organizations contribute a material sum to the government treasury. Monopoly control is most commonly applied to tobacco, alcohol, salt, gunpowder and other explosives. A few countries operate national lotteries, a device not uncommon with some of the Latin American countries

Nor should government monopolized railway service be overlooked It would not be far from the fact to say that government ownership and operation of railways is a more general condition over the world than private ownership Here, however, other factors than revenue are sometimes uppermost, as for example, the promotion of domestic and, through low export rates, of overseas commerce, or sometimes the projecting of railways into areas

where private capital hesitates to venture, as with some Latin American countries and Australia. In many of these cases railway operation is a burden on the national treasury rather than a source of income.

The reason for tax exemption in the case of operation for revenue is largely a matter of convenience. So far as private industry is concerned it does not matter one way or the other, except that such industry is denied the opportunity of making profit from enterprises which government monopolizes. Whether there would be profit or not would depend on tax rates, prices at which commodities would have to sell with the tax added, willingness of consumers to buy at advanced prices, and other factors

Tax Exemption for Public and Private Enterprises. The question of tax exemption for government industries which compete with private enterprise opens many issues, some of which are impossible of satisfactory solution The reason is that industrial operation by government often involves a philosophy of functions of state; in this case there are no generally accepted norms which may serve as a basis for decision.

The main elements in a program of government competition with private enterprise include (1) the purpose of forcing down prices of essential goods and services; (2) the breaking up of monopoly; and (3) the driving of as many spearheads as possible into private enterprise with the expectation that, eventually, it may be driven out of existence—that is to say, the socialistic goal. If the purposes involved in topics 2 and 3 are approved by the electorate they could, and should, be achieved by more direct methods than by government competition.

For example, the question of reduction of prices is a matter of business policy which, if government sees fit, can be reached through its power of control or, if necessary, of stimulation. Further, if the intention is to supplant private enterprise by government ownership and operation, the proper method is by decision of the people. If that decision favors the policy of government ownership and operation, the issue has been settled directly. This matter is of such vital interest as to require the sanction of the electorate who have been informed as to the advantages and disadvantages of the proposed system.

A decision to change the form of ownership involves questions of fiscal policy. Under any system of industrial ownership there

are certain essential services which government must render—education, medical care, hospitalization, police and fire protection, provisions for the aged and infirm, and others These services require governmental expenditures and income. The additional income might be obtained in two ways: first, by heavier taxation on the remaining private industries, which would mean a further strain on those enterprises, or by increasing the charges or rates made by government industries to cover their share of the cost in maintaining essential government services. These increased prices or rates would actually be a disguised form of taxation upon the consumer.

With respect to tax exemptions for government enterprises which compete with those in private hands, that policy involves doubtful features The revenue lost by government by such exemptions must be made up elsewhere Many local units of government in the TVA area are now troubled with this problem Some of them have depended to a considerable extent on taxation of public utilities for revenue Either old sources must be taxed more heavily or new ones found. The people of these localities may gain in the form of lower power rates, but they also lose by the new, or higher, taxes they must pay because of the loss of private utility revenue. It is safe to say that these new levies come back to consumers of electric power through the intricate process of tax shifting. In other words, the savings in charges for power are not a net gain, if there is a gain at all

Competition of this description dries up sources of income. If the policy were widened to cover a large number of important industries, such as railroads, petroleum production and refining, operation of coal mines, the loss of revenue would be considerable, unless government adopted the plan of taxing itself in the same manner and to the same degree as industries are taxed under private regime. In that event, the issue would resolve itself into the question: "Which system provides the best and cheapest service?" As yet there is no factual answer Of course, in the case of loss of income because of competition with private enterprise, government may adopt a policy of economy and retrenchment But in view of the modern demands made upon government it is not likely that this method would be favored

Tax-exempt Government Securities. While for many years there has been an undercurrent of discussion relative to the

feasibility of complete or partial exemption of federal and state securities from taxation, interest in the issue has been greatly intensified during the last decade and a half. One reason is the enormous increase in government securities outstanding. In 1913 the issues of the United States, upon which interest was exempt from normal income tax and surtax, amounted to only $966,000,000; and the issues of states and subdivisions, exempt under the same conditions, amounted to only $4,528,000,000. In view of the relatively small amount of such issues in existence, it was hardly worth the effort to debate the question of how much governments would gain or lose by the removal of exemptions. Besides, at that time, most authorities took it for granted that taxation of government securities would increase the cost of financing. But with the great increase in borrowing, notably since 1920, it has seemed worthwhile, mainly to federal tax officials, to re-examine the whole question For example, in 1937 the amount of federal securities exempt from normal income tax and from surtax was $15,065,000,000, in addition, some $16,087,000,000 enjoyed exemption from normal tax, but not from surtax. The total of state and local divisions outstanding in this year was $19,152,000,000 (Interest exempt from normal income tax and surtax.)[6] In 1940, all newly issued federal securities were made fully taxable

Another factor responsible for the greater interest in this matter of tax exempt securities has been the enormous increase in expense of government. This calls for a study both of methods of economizing in government cost, and of search for new sources of income. Thus it is no longer a matter of academic discussion, but of practical interest Meanwhile, many new arguments have been added for and against the policy of exemption Some of the points of contention are·

(1) Whether there would be a net gain or loss to federal and state governments by the removal of exemptions.

(2) The effect of tax exemption on business activity, including new investments (risk capital) in industry. In the words of C. O. Hardy, "It is claimed that tax exemption brings about an undesirable distribution of investments "[7] And continuing the same

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[6]See data in *Statistical Abstract of the United States*, 1938, p. 210. Prior to 1918 there were no issues outstanding which were exempt from normal tax but not from surtax

[7]*Tax-Exempt Securities and the Surtax* (New York The Macmillan Company, 1926), p. 30.

thought, what actually happens is that "the very rich become the chief owners of these securities. They are the men who ought to be taking the industrial chances, who by reason of their great wealth can best afford to take risks, who by their accumulation of large wealth have proven their business capacity "[8] This argument also runs that by putting their funds in government securities they are denying business enterprises the benefits of their accumulations.

(3) The operation of exemptions thwarts the principle or "ability to pay," and is inconsistent with the progressive feature of the income tax.

(4) The political question, mainly a contest among various grades of governments for "cheap money" and the unwillingness of state authorities to give up their pristine right of exemption from taxation by an outside authority

In addition, various minor assertions creep into the discussion. It has been claimed that tax exemption encourages "municipal socialism" since by cheapening the borrowing rates it encourages local governments to engage in various public ownership enterprises; it is claimed also that under the regime of exemptions the rich escape their fair burden of taxes; that tax exemption for state and municipal bonds is a subsidy for highway construction, the erection of public buildings, and such luxuries as parks, museums, and zoos Some persons claim that by removal of exemptions on new issues, the value of the old would be enhanced, thereby bringing an unearned gain to the holders of such issues It is evident that some of these contentions are conflicting; but on this point there is nothing unusual; every government policy involves, both for government and people, some advantages and some disadvantages. The real problem is to select the policy that contains the greatest net advantage, after consideration of the disadvantages.

The point of view held by the Treasury Department, as expressed by Undersecretary John W Hanes, is as follows "The discontinuance of further issues of tax-exempt securities is desirable because such securities (a) undermine the effectiveness of our progressive tax system; (b) interfere with the flow of investment into private enterprise, and (c) deprive the federal government of income which otherwise might be obtained "[9]

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[8] *Ibid.*, pp. 27, 33, and 40

[9] *Wall Street Journal*, July 12, 1939

The effect of exemptions on the progressive tax system must be considered first. A person who elects to put a portion, or perhaps all of his investments in tax-exempt securities must be content with the low interest rate which such bonds yield On the other hand, he may put his funds into productive industry where he is subject to the advancing scale of tax rates. In many instances, the investor conserves a larger portion of his income by investment in government securities than by investment in business enterprise; in other words, government is often a strong competitor with private industry for capital.

Of course, other matters than tax exemption are involved in his judgment as to a course of action. He does not pay a tax on his income until it is realized Hence, barring such legislation, he may reinvest a portion of the net income in his business, or if he is not engaged in business himself, he may put funds in the so-called "growth industries," trusting to the prospective increase in value of such properties to take care of the increments on his savings.

Further, with regard to the contention that tax exemption "severely undermines the effectiveness of a progressive tax system," this issue is apt to be greatly overemphasized The sacredness—if it may be called that—of the principle of ability to pay, as measured by progressive taxes, is so often violated in the present tax systems, whether of federal or state governments, that emphasis on tax exemption as diminishing the significance of that principle loses much of its weight Sales taxes, gasoline taxes, property taxes, all of which are large producers of revenue, and all of which bear heavily on the final consumer, are levied without much thought of ability to pay In fact, if there is a general rule in tax matters it seems to be that of expediency, the more or less abstract principles of justice in taxation have dropped into the background, at least in the present tax systems.

The second contention, namely, that tax exemption interferes with the flow of investment capital into private enterprises, becomes a question of fact and, unfortunately, some of the significant facts are not available Tax exemption is undoubtedly one of the facts the prospective investor takes into account. But he considers also the conditions of the particular business in which he might invest, the conditions of business in general, the laws of the country affecting business, the trend of the times, among many other things He may not invest at all, letting large portions

of his wealth lie idle. These are only some of the possibilities Thus to assume that a man has only two choices, one to invest in tax-exempt securities, the other to invest in business, and that there are no other opportunities open, is too naive for consideration.

The third point, that the removal of exemptions would provide a net gain to government, unfortunately is a statement based upon estimates, and consequently, is merely a forecast of expected results As has already been said, certain federal, state, and local securities still bear contract stipulations providing exemptions from normal income tax and surtax, which can be eliminated only when they are refunded Fortunately, the amount of federal securities thus exempt is very small. No one can say at present where these exempt bonds would stand under court decision, but their legality would undoubtedly be sustained. At any rate, granting that events turned out favorably for the government, the amount added to government income by removal of exemptions would not be large compared with the total that is presently obtained [10] If governments are embarrassed by unbalanced budgets, a far more feasible plan would be to search for methods of reducing expenditures What was said in this paragraph has no bearing on the justice or injustice of the proposal to remove exemptions, but merely on the fiscal aspect of the issue

Other Types of Tax Exemptions. It would not be far from the truth to say that each new form of taxation brings in its train exemptions of some kind Meanwhile, the demand for exemptions on the older forms is constantly widened and deepened. Along with the development of taxation goes the related movement of freeing certain persons, commodities, and property from the impost This movement has been observed in the development of the income tax, the same feature made its appearance with the introduction of taxes on motor fuel used in farm machinery, and the various exemptions granted by states which use the sales tax The statute in Illinois, for example, provides for tax deduction of all gasoline used in farming.

The rapidity of economic development in the United States, notably in the last forty years, and the eagerness of certain states and municipalities to share in this growth, has led to special tax

[10] C O. Hardy, *op cit.*, p. 41.

treatment of certain types of industries and, in many instances, to exemptions. Some of these have been called "developmental exemptions"[11] A rather long list of states falls in this category. About 1930 "Virginia exempted products of domestic agriculture, while Arkansas, California, Idaho, Maryland, Oklahoma, and Tennessee exempted growing crops. At least two states, Alabama and Mississippi, have provided for the exemption of manufacturing establishments In the latter case the exemption was limited to the first five years of the existence of each establishment In Georgia, Kentucky, New York, Rhode Island, South Carolina, and Vermont the local units are authorized to grant exemptions to manufacturing establishments In each case the exemption must be limited to a definite period, usually five years"[12] Those are only a few illustrations Developmental exemptions may be set up in various ways, and may apply to a considerable assortment of industries, or even to industries in general.

Factors in this policy are sometimes matters of tax pressure or diffusion, which upon occasion provide incentives for industries to move to lower pressure areas, sometimes to competition among states, or even municipalities, to encourage the location of industries Whether or not an industry will move from high tax pressure areas depends partly upon the problems and difficulties involved in the migration Industries involved in the production of raw materials, such as farm, mining, and timber products, must stay in the areas in which the resources are located But given time for adjustments, other enterprises, like manufacturing and service industries, may take advantage of tax concessions

States are sometimes both attracted and impelled by the policy of exemption for industries More industries mean more wealth for the state, wider tax bases, and larger means for the support of its functions. On the other hand, more industries mean a larger draft on the state's financial resources Whether there are net benefits, through industrial promotion, over the tax exemption is open to question.

States are often impelled in the direction of tax exemptions by similar policies of other states. "It is immaterial that the same threats to migrate are used on all state legislatures and that the threats are not often made good. So long as the possibility appears

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[12] *Ibid*

[11] *State and Local Taxation of Property* (New York National Industrial Conference Board, Inc., 1930), p. 30

to exist, those industries will have an advantage in state and local taxation "[13]

As illustrations of this type of pressure "Interstate competition of this kind is a reason that some states have, for example, failed to adopt corporation income taxes, or have allowed an especially low assessment of manufacturing machinery. Florida in 1924 passed a constitutional amendment forbidding the imposition of income or inheritance taxes,[14] and advertised the fact widely Many states have provided special exemptions from the general property tax for particular industries [15] A survey in 1929 revealed constitutional or statutory provisions that granted some measure of tax exemption to manufacturing property in fourteen states. The exemptions were for limited periods, usually not over five or ten years The exemption was rarely in the constitution; sometimes it was provided by statute; frequently it was granted only by vote of the municipal legislature or by the electors."[16]

A more recent movement has favored the exemption of dwellings, or sometimes "homesteads," however defined Florida's constitution provides for exemption of homes of less than $5,000 value, provided they are occupied by the owner. No doubt social reasons, in the broad sense, as well as economic, are involved in this move. It is partly a matter of granting favors to small home owners, herein a political motive is often involved. Possibly another reason is the inability of the tax authorities to apply graded taxes to real property, and, as a result, exemption is the easiest way out This device, however, does not reach the tenant who sometimes is in a worse financial condition than the home owner.[17]

In some instances exemptions apply to capital investments or to improvements An illustration involving the federal government was the Merchant Marine Act of 1920, which exempted shipping companies engaged in foreign trade from excess profit

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[13] *Facing the Tax Problem* (New York Twentieth Century Fund, Inc, 1937), p. 149

[14] Inheritance tax provision later repealed

[15] See also Jens P. Jensen, *Tax Exemption as Means of Encouraging Industry*, Kansas Studies in Business, No 10 (Lawrence, Kan., 1929)

[16] *Facing the Tax Problem*, p 148. See also extensive notes, same volume, p. 545, giving various illustrations of threats of enterprises to move from states which proposed higher taxes Also extensive discussion in *Tax Exemptions*, publication of Tax Policy League, Inc , New York, 1939

[17] *Facing the Tax Problem*, p 295.

taxes, provided the exempted sums were invested in new vessels together with a certain amount of new capital.[18]

In a few instances the ideas which lead to the exemption of improvements may be traced to the single tax doctrine. Here the thought is that natural agents are the sources of unearned increments in value, to which owners are not entitled; these unearned increases should be taken by the state. It is believed by the advocates of this doctrine that enterprise will be encouraged by relieving productive effort of tax burden The fact has already been mentioned that, for totally different reasons, some states either tax at low rates, or exempt entirely, mines, oil, and timber resources The purpose here is to promote the conservation of natural resources.

Tax Comity Among Nations. Many citizens of one nation receive income on investments in another country. In such instances, both the nation of domicile of the income taker as well as the country in which it was earned could tax the return, thereby subjecting it to double taxation[19] The United States has been taking an active lead in working out reciprocal taxation policies with other countries Since 1939, the United States has signed tax conventions with Sweden, Canada, and France. A similar treaty, ratified by the Senate, with the United Kingdom and Northern Ireland will give many American and British individuals and companies relief from double taxation. Because of retroactive features of this treaty, some corporations and individuals will be able to claim refunds from taxes paid in the United States and Britain for the year 1945.

This United States-British tax treaty will eliminate or minimize double taxation between the two countries by two methods In some cases, an individual or corporation is given a tax credit in one country on taxes he has paid in the other country. In other cases, each country agrees to exempt altogether an income on which a tax has been paid in the other country The agreement covers income taxes, including surtaxes, excess profits taxes, and the British national defense contribution, but not taxes levied by state, provincial and municipal governments. A separate treaty gives similar relief from double taxation on estates of deceased persons

[18]Isaac Lippincott, *Economic Development of the United States*, p. 620.

[19]See E R A Seligman, *Double Taxation and International Fiscal Cooperation* (New York. The Macmillan Company, 1928), pp 37 ff.

Americans working or just living in Britain and British citizens in the United States are affected The treaty also affects Americans and Britons at home drawing income from sources in the other country In addition to individual income, the income of business enterprises with permanent establishments in both countries will benefit from the new tax rules.

Under the agreement, an American who receives a dividend from a British firm will pay no British surtax on the dividend if he is not engaged in business or trade in the United Kingdom. On the other hand, a British investor will receive a substantial reduction in the United States tax he is now required to pay on American dividends The reduction is from the present rate of 30 per cent of the dividend to 15 per cent, with the new rate of only 5 per cent in the case of certain British corporations receiving dividends from the United States.

Interest paid by a British firm to an American will not be subject to a British tax unless the American is engaged in business in Britain Similar exemption is given by the United States to American interest payments to Britons

Neither country will collect a tax on royalties paid to citizens of the other country for use of copyrights, patents, trade-marks, and motion picture films That will benefit such groups as authors, song writers, inventors, and certain corporations. The United States, however, will collect a 15 per cent tax on royalties paid to British citizens by American mines, oil wells, as well as rent payments for United States real estate. This is a reduction from the present tax of 30 per cent. Such royalties received by Americans from British sources are exempt from British surtax

An American who works in Britain for an American firm usually does not have to pay a British tax on his salary for six months. But the British government can tax his salary after six months, or can tax it earlier if he plans to stay for a long period. The treaty assures exemption from British taxation of salaries of Americans visiting Britain for less than six months, so long as they are paid from home That applies to entertainers, actors, musicians, and athletes, as well as to businessmen Similar exemption is given to Britons visiting the United States.

Professors and teachers who go from one country to the other to teach are exempt from taxes on their salaries in the country they are visiting, for two years. Similarly, students and business apprentices will not pay taxes on money received from home for

maintenance and education during the period of full-time study or training.

Also, the British government does not tax the salaries of American citizens who are working for the United States government, such as embassy employees, and vice versa. Likewise, government pensions are not taxed in the country where they are received Private pensions and annuities are not taxable in the country from which they are paid, but can be taxed by the country in which the recipient is living.

A business can be taxed on its profits in the country where it operates, if it has there a permanent establishment, such as a branch, management, factory, or other fixed place of business. Sometimes, however, a firm can carry on business affairs through an agency or purchasing unit in the United States or Britain without being subject to taxation in the country where the transactions are handled.

Special treatment is given business profits of shipping and air transportation firms Profits of such firms registered in one country are not taxable by the other country.

The United States or Britain, on its tax bill, gives a credit based upon the amount of tax paid in the other country by a company or individual Actually, this is an extension to British laws of a principle already followed in the United States That principle limits the amount of tax deduction allowed as a credit for taxes paid in other countries Checkups can be made through exchange of tax information by the two governments

A British citizen who is not engaged in trade or business in the United States does not have to pay a tax on gains from sale or exchange of capital assets. This provision has been criticized on the ground that it gives a British trader in capital assets an advantage over American taxpayers British laws do not levy a tax on capital gains where capital transactions are not the major business activity of the taxpayer

In general, any individual or company that paid, on 1945 income, a tax that would not have been required if the treaty had been in effect, may claim a refund For United States taxes, the treaty is retroactive to January 1, 1945, and for British taxes, to April, 1945. Refunds are claimed by taxpayers from the government that collected the excess tax.

Principal changes affecting American estate taxes and British estate duties result in giving credit to each country for taxes paid

on estates in the other country Agreement is reached on procedure where both countries tax the same estate on the basis of domicile of the deceased person Claims must be made within six years after death

At first the agreement covered only the United Kingdom and Northern Ireland. But provisions are made for either country to extend coverage to its overseas territories, colonies, protectorates or mandated areas

The Free Tariff List. In the discussion of exemptions, not much was said about duty-free articles imported into the United States. A surprisingly large percentage of foreign commodities falls in this category Such articles are totally or partly exempted from the payment of tariff duties Notwithstanding the increasing level of tariff rates, notably since 1892, the value of goods imported under the free list has steadily increased. The annual average from 1901 to 1905 was 44.81 per cent, and for the five years ended 1935 it was 63 11 per cent The increase in the value of duty-free goods is due largely to the growing importation over the last forty years of certain raw products, such as rubber, tin, and silk of which the use has grown enormously

In some cases the exemptions are for the purpose of giving a price advantage to certain classes of importers or articles imported, such as agricultural implements and manufactured goods The free list includes articles which are not competitive, or at least not seriously competitive, with goods produced in the United States, as is the case with raw silk, essential oils, tin ore, rubber, cocoa, various tanning materials, scarce drugs, and chemicals For the promotion of educational, religious, or aesthetic interest, exemptions apply to books, engravings, etchings "imported by authority" or for use of the Library of Congress, books and pamphlets printed wholly or chiefly in languages other than English, and professional books. Possibly as a concession to stamp collectors, the free list includes postage or revenue stamps, canceled or uncanceled, and government stamped envelopes or post cards bearing no other printing than the official imprint

Tariff policy, whether with respect to dutiable or free goods, involves the whole question of protection and free trade Revenue, of course, is always an object, sometimes the most important one, depending on the foreign trade sentiment of the legislative body

Effects of Exemptions. Many reasons are given for exemptions, among which are relief for the less favored elements in society, attraction of industries, or retention of those which might migrate, difficulty of administration where evasion is easy or where the aggregate income would be so small as to make tax collection a nuisance, and public property and securities as a recognition of the sovereignty of government.

On the whole, administrative officers of government are opposed to exemptions They are officers of the state, their task is to obtain revenue to meet the needs of government. Legislative bodies which, in most cases, grant the exemptions, are inspired by many, and sometimes by conflicting, reasons. Some of these reasons are based purely on moral principles; others rest upon expedience, without thought of equity. Those who oppose exemptions present the need of a broadened tax base, and they urge that every exemption narrows this base "and therefore results in an inequitable shifting of tax burdens from one group of taxpayers to another group . . ."[20]

Specific tax exemption, that is to say, for given persons, commodities, or industries, does not mean general exemption. If the state requires a given amount of funds, these must be raised by taxation. The burden of exemptions is thus shifted to other persons or industries, but it may, and probably does, come back to the exempted person in other forms. The routes by which the burden returns are operative through the intricate process of shifting, and through influence of tax pressures This means that the community as a whole pays for the exemptions, although in most cases this fact is not evident

The matter of exemptions under special taxes will be considered in the chapters covering these taxes

Summary. Escape, shifting, and exemption, as they relate to the burden of taxation, should be kept separate Exemption refers to that property or service which the law does not require to be listed for tax purposes. The amount of property in the United States that need not be so listed runs into the billions of dollars. Churches, schools, cemeteries, eleemosynary institutions, hospitals, parks, playgrounds, museums, non-stock, non-profit cultural associations, to say nothing of property used by the federal, state, and local governments for public purposes, are not required

[20] *State and Local Taxation of Property,* p 34

to be listed for tax assessment. This is not to say that the property and income of these various institutions are tax-free. Each pays taxes indirectly through the processes of shifting and pressure. To be tax-free means to be relieved of assessment, levy and collection of direct taxes; it does not mean exemption from tax burdens that may be imposed indirectly

Exemptions are sometimes allowed for practical reasons In the case of income, property, and sales taxes, exemptions are based on a minimum standard of living. Personal and intangible property are sometimes exempt because of the practical impossibility of getting them on the tax books A portion of corporate income is exempt to provide tax-free capital. To avoid double taxation among the states and between the United States and foreign nations, certain compacts and treaties have been made in regard to exemptions of incomes paid to foreign investors.

The single taxers advocate exemption of all personal property and improvements on realty. They justify their contention on the ground that personalty does not yield a *produit net*, and, to exempt improvements on realty would encourage its full uses.

There is an ethical side to tax exemptions. It has been abused by creating a privileged group who enjoy all the advantages of government without contributing to its support. This is especially true of tax-exempt government securities.

TEXT QUESTIONS

1. What are some of the problems in collecting a tax on personal property?
2. How would you justify tax exemptions? What groups should be exempt?
3. Discuss the problem involved in the taxing of state property.
4. What reason can you give for exempting new industries from taxes? What are developmental exemptions?
5. Explain why government enterprises may not be subject to taxes
6. For what reasons may the government compete with private enterprises?
7. What effect may untaxed government competition with taxed private industry have in the long run in respect to government revenues?
8. Discuss fully the question of tax exempt government securities on a historical basis since 1913.
9. What is the effect of tax-free government securities upon private enterprise?
10. Discuss the effect of tax-free government securities on progressive taxation.

11. How may tax exemptions granted by states affect industry and interstate commerce?
12. Discuss thoroughly tax comity between nations. How have the United States and England settled this problem?
13. Discuss thoroughly the free tariff list.
14. How may tax exemptions in general be justified?
15. How do single taxers justify the exemptions of personal property and improvements on realty?
16. Discuss the exemption from taxes of entire classes of people as was done in France before the French revolution.

APPLICATION PROBLEMS

1. Can you make out a case for or against the contention that complete exemption of government securities would make for more efficient debt management? Can you also make out a case to the effect that holders of tax exempt government securities are not really enjoying tax exempt privileges but are in fact being taxed by other devious and indirect means?

RESEARCH TOPICS

1. Consult the tax laws and statutes of your state and city and make a study of the kinds and types of property and income which are exempted by constitutional provisions and by statute from taxation Can you arrive at its valuation, and therefore estimate the loss in revenue to the state or the city?
2. Does your state have any comity of arrangements with any other state in regard to exemption of property or income which may be taxable in both jurisdictions? Examine especially into such cases as income, estate, inheritance, and use taxes Could your state enter into such comity of arrangements in regard to exemption with foreign powers?

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PART V

GOVERNMENT INCOME

CHAPTER 21

TAXATION OF GENERAL PROPERTY

Governments of all grades must have revenue This revenue is derived principally from five general sources, namely: public domain; government owned and operated enterprise; administrative revenues, such as fines, fees, licenses and special assessments, taxes of all kinds on property and income, including customs duties and excises; and credit or borrowing The issue of irredeemable paper money by the state is such an extraordinary method of income, at least in the United States, that it should not be regarded as one of the usual sources, having been used by the federal government but once when the greenbacks were issued during the Civil War period This method of creating purchasing power for the state is never used by any government until all other sources of income have been exhausted But when the state does issue irredeemable paper money it, in effect, takes property or value from the people for public purpose through inflation of general prices, and therefore should be regarded as a species of taxation in disguise instead of a type of forced loan as some prefer to call it. Confiscation as a source of income to the federal and state governments in the United States is also to be disregarded, because under the Fifth and Fourteenth Amendments to the Constitution, property cannot be taken for public purposes except by just compensation [1]

There are those who deny that public credit, or borrowing by the state, should be regarded as one of its sources of income, because such sums must be returned with interest to the lender at a later date But, on further thought, *public borrowing* is merely *taxation in advance,* because of subsequent levies to repay the debt Of all these sources of revenue, modern governments rely on taxation and public borrowing for almost their entire income

Since many phases of the general property tax have been discussed elsewhere, only such aspects as its history, problems

[1]Brown-Forman Co v Kentucky, 30 S Ct 578 (1910), Colgate v Harvey, 56 S Ct. 252 (1935), Knowlton v Moore, 171 U S 41 (1900), Alaska Fish Co v. Smith, 255 U. S. 44 (1921)

in administration, incidence, and defects will be presented in this chapter.

Importance of General Property Tax The general property tax is the one tax which state and local governments, especially the latter, claim as their own particular source of income Upon only a very few occasions has the federal government ever attempted to invade this field· in 1798 with a direct tax designed for apportionment among the states, to be applied against dwellings, slaves, and land; again during the War of 1812, with a yield of $4,000,000; and also during the Civil War, when a levy of $20,000,000 was apportioned among the states In at least two of these cases the tax may be regarded as an emergency measure to obtain urgently needed revenue. To the federal government the general property tax is, therefore, a constitutional source of income; but its proper administration is difficult, if not impossible, and, as with the states, it is very inequitable among the taxpayers

The general property tax is the principal source of revenue for local governments, and contributes substantial sums for the support of most states. Considering the country as a whole, in 1932 the general property tax supplied $4,684,784,000 out of $6,357,747,000 total tax receipts of state and local governments, or about 73 per cent of their total income, in 1941, it yielded $4,689,000,000, or 56 per cent of all their income. This decrease, about 23 per cent between 1932 and 1941, in the use of the general property tax is due in part to many states dropping it as a source of revenue and resorting to other forms of levies. If the combined revenue for federal, state, and local governments is considered, in 1941 the general property tax yielded about 31 per cent of the total

The particular significance of the general property tax in the support of the states and local governments in the United States is shown in the table on the opposite page [2]

According to the above data, general property taxes contributed in 1942 approximately 5 44 per cent of the tax receipts of the states; they supplied counties 96 05 per cent; cities, 87.14 per cent, townships, 92.47 per cent, school districts, 99.88 per cent, and special districts, 100 per cent Of the various local

[2] *Government Finances in the United States, 1942*, Bureau of Census, Washington, D. C , 1945, p. 27.

REVENUE RECEIPTS FROM PROPERTY TAXES, 1942

(State and Local Governments)

(000 omitted)

UNITS OF GOVERNMENT	TOTAL TAXES	TAXES		PER CENT FROM PROPERTY TAX
		FROM GENERAL PROPERTY TAX	FROM OTHER TAX SOURCES	
States	$4,974,765	$ 270,939	$4,703,826	5 44
Counties	933,820	896,972	36,848	96.05
Cities				
Pop over 25,000	1,948,652	1,693,564	255,088	86 90
Pop under 25,000	376,718	332,708	44,010	88 32
Townships	278,484	257,498	20,986	92 47
School Districts	1,078,831	1,077,470	1,361	99 88
Special Districts	89,687	89,687		100 00
Grand Totals	$9,680,957	$4,618,838	$5,062,119	

units of government, cities used the general property tax in 1942 least of all, largely due to the fact that so many other sources of income were available to them Thus, revenue from the taxation of general property is a very important element in the support of various grades of local government, and the smaller the unit, the more important and equitable it is As a source of income for the states, however, it has been declining in relative importance, especially since about 1930 For example, in 1932, general property supplied the states with about 19 7 per cent of their total income; in 1942, 5 44 per cent, or a reduction of 73 2 per cent in its use by states during the decade According to the total state budgets for 1945–1947, the yield from general property also showed a material decrease, ranking sixth in importance among all sources as a revenue producer

In recent years the states have had the good fortune to tap large and rather diversified sources of income which are not

available, at least in considerable amounts, to the local divisions. In 1932, for example, motor fuel and motor vehicle licenses contributed about 44 per cent of the revenue income of states This new item of income appeared after 1900, and has become of considerable importance, especially in recent years Many states levy income taxes, both individual and corporation, and these, together with inheritance taxes, contributed about 8 per cent of the total revenue of the states in 1932 At present, a few states, like Illinois, have been able to discontinue entirely the general property tax as a source of revenue and to rely upon other sources to supply their needs without materially affecting their total volumes of income; in fact, their total receipts have been larger

History of the Property Tax. A tax on land, or on real estate, is one of the most primitive of all levies, dating back to a very early period in history It was one of the few available sources when types of property were undiversified, even before personalty became of any importance But with the growth of wealth, which usually means the appearance of many kinds of personal property, government, whatever its form, began to take cognizance of these new economic conditions and to adjust its tax arrangements accordingly This was notably the case where rulers or states needed increasing means of support Governments then resorted to every available income, and *property* of every kind was taxed regardless of its nature; thus the taxation of *general* property slowly came into use. Classification of property for taxation purposes did not appear until comparatively recently

The following statement gives a brief account of the development of the general property tax "In the early feudal system land was practically the only form of wealth, just as it was the basis of the political fabric In England the feudal payments (scutages, carucages and tallages) were assessed on the land, just as Saxon shipgeld and danegeld were land taxes These were at first levied on the gross produce of the land, either actual or as computed by the mere quantity of the land With the progress of cultivation, net produce rather than gross produce was made the test Rents became the only practicable test of the value of land But from the twelfth century onward, the growth of industry and commerce in the towns led to such an increase of personalty or moveables that it became necessary to devise

some new method of reaching the ability of the citizens. The only way out of the difficulty in England, as on the whole continent, was a combination of the taxes on land and on moveables through the general property tax."[3]

Professor Seligman states further. "The mediaeval town was the birthplace of modern taxation. Every inhabitant was compelled to bear his share of the local burdens, his proportion of the scot and the lot, exactly as in the early days of the New England colonies The scot, or tax, was almost from the very outset the general property tax combined with the subordinate poll tax The town, as such, generally paid its share of the national burdens in a lump sum, the *firma burgi* But this lump sum was always distributed among the townsmen in proportion to the property of each . . The only distinction between England and the continent was that in England the property tax remained for centuries the sole local tax, while in France and Germany local excises or octrois were soon added. But for some time at least, the general property tax was the measure of the individual's capacity."[4]

The general property tax was first used in the United States in Massachusetts when it was found that other forms of income, especially the poll tax, were insufficient to support the state At that time, the poll tax was combined with a tax on property, and was called a "tax on faculty" At first this Massachusetts tax comprised land, livestock, and a few other tangibles, but in time the list was extended until it included about every object of private ownership, whether tangible or intangible This tendency of the growth of taxable property has maintained in all states, hence the term "general property tax" The United States is still the principal country in which the general property tax is found Canada probably ranks next, while a few countries, like Belgium, derive only a very small percentage of their total revenue from this source. The use of the general property tax, therefore, varies greatly among the countries of the world

Meaning and Definition of General Property. The early common law recognized only real property, or land, in fact, it grew out of the feudal land tenure system Later, when tangible personalty became important, it was included, at first by the

[3] E R A Seligman, *Essays in Taxation* (10th ed), p 38
[4] Ibid

lex mercatoria before it was covered by the common law. It was not until comparatively recently that intangible personalty came into existence. Legally speaking, the word *property* refers to the title, and title means the right of the holder to exclude every one else from the use, possession, and enjoyment of the good or thing. A tax therefore really falls upon the title holder; hence, a tax is primarily a personal and not a property obligation. Under early England, the owner of property could be seized and cast into prison or sold into slavery for not paying his taxes, and a tax was regarded as just another debt to the king

The following outline contains, in general, the principal classification of property subject to taxation in the United States·

Real property, therefore, includes the soil or land and everything attached that, if moved, would leave a damage. This includes fixtures which were personalty before being attached to the realty Tangible personal property includes all movables of a corporeal character These distinctions become very im-

portant when it comes to classification of property for purposes of taxation.

As the term implies, the general property tax is a levy in hotchpot on every type or form of private possession or wealth, whether realty, personalty, or mixed; tangible or intangible; corporeal or incorporeal In theory the general property tax is levied on the exchange or market value, sometimes known as actual or appraisal value or value by comparison with similar units. Legally, property may be taxed wherever found, or where the state has jurisdiction, regardless of the domicile of the owner. Originally the property tax was very selective But today such a tax considers property as a homogeneous whole, although certain forms of classification have been allowed The general property tax is often mentioned as the uniform rule in taxation, because the emphasis is on uniformity. Two of its characteristics are, therefore, universality and uniformity, inasmuch as it regards the property of each taxpayer as a unit, and attempts to tax the property of all owners alike at the same rate regardless of the amount of the base

Characteristics of Taxable Property. Inherent differences in the various kinds of property and administrative problems have forced distinctions in the tax The most significant distinctions are those between real and personal, or fixed and movable, and between tangible and intangible. The courts have held that where there is a valid economic distinction, property, of whatever kind, may be further classified by the legislature for taxation purposes [5] This proposal of a graduated land tax is not only to lay the tax better according to ability to pay, but also that it may be used to some extent to break up large landed estates Ordinarily, the distinction between realty and personalty is of little or no importance when considering the general property tax, but since some states, like New York, Delaware, and Pennsylvania, exempt personalty entirely, or tax it at a different and usually lower rate the classification becomes significant

The legal technicalities are further complicated Is a mere improvement to an old building realty or personalty? Some people believe that improvements should either be exempt or

[5]State Board of Tax Com'rs of Indiana v Jackson, 51 S Ct 540 (1931) Also see Rinzel v Stumpf, 116 Wisc 287 (1903), Hunt, Trustees, v Bullock et al, 23 Ill 320 (1860)

taxed at a very much lower rate in order to encourage the use of land Are additions, such as machinery affixed to the building, or trade or tenant fixtures, to be taxed as part of the realty? Are leases and mortgages on realty personalty? These are a few legal technicalities which are raised when property is classified for taxation purposes.

In the last analysis, granted that the state has the power to levy such tax, its legislature has the right to say what is taxable and how, it is still for the courts to say if the legislature has or has not acted within its constitutional authority Ordinarily, fixtures are taxable as part of the realty to which they are attached; but there is nothing to prevent the legislature of the state from ordering that they should be taxed separately as personalty Improvements on land may be exempted entirely, or taxed at a lower rate in order to encourage their construction

One of the most harassing problems is the taxation of mortgages on realty. Shall they be taxed in the hands of the mortgagee or mortgagor, or be exempted entirely? Shall they be taxed annually while outstanding, or only once on issue and recording? This problem is chiefly one of double taxation and of shifting. If the tax is put on the mortgagee or his assignee it will be most likely shifted back on to the mortgagor debtor in higher interest rate on the loan If the mortgage is taxed in the hands of the debtor mortgagor, it is compelling him to pay upon an increase in value of his realty which is not actually there In other words, he is being compelled to pay interest and taxes upon a debt liability and not on income In both cases, apparently it is the mortgagor debtor that pays the tax. A few states have attempted to get around this inequity by taxing the mortgage once when issued And in order to compel its being reported for taxation it has been provided that the mortgage is not effective as such in the hands of the mortgagee until it has been duly recorded in the state where the encumbered land is situated.

Real property is taxable in the district where it is located The tax liability of personalty *usually* follows the owner, although, as has been explained in another chapter, there are many recent court decisions to the contrary in which the principle of *mobilia sequuntur personam* is not followed. Intangibles are regarded as personalty and consist of contractual or other property rights,

such as bonds, stocks, promissory notes, mortgages, money, bank notes, bank deposits, and simple choses in action They may even include copyrights, patents, and good will.

What was just said about the taxation of mortgages may also apply, at least in part, to the imposition of taxes on ordinary debts and credits, such as promissory notes, bonds and open book accounts These are, according to the above chart, classified as intangible personalty, and are generally subject to taxation If such credit instruments as promissory notes and bonds are taxed in the hands of the creditor holders, the burden will be most likely shifted back on to the debtor in higher interest rates or by way of larger discounts If the tax is made to fall upon open book accounts, the merchant may shift the burden back on to his customers through higher prices, cheaper quality of merchandise, or poorer service if his competitive advantage or bargaining power will allow him to do so. Of course, the most equitable procedure would be to tax both debtor and creditor according to their individual ability to pay, but this ideal breaks down because of the difficulty of administration In general, it is administratively easiest to tax the property in the hands of the owner according to situs or jurisdiction.

The taxation of credits and debts has been variously handled in the states Wisconsin, for example, exempts intangible personal property from taxation In Illinois, credits are taxed as any other personal property In a few states, such as Minnesota and Iowa, credits are taxed at lower rates than other forms of personalty In all cases, the primary motive in adopting a policy of taxing intangibles is not equity, but feasibility of administration Because of the ease of escape, it has always been very difficult to get more than a substantial part of personalty on the tax books A few states, such as Ohio, Iowa and Kentucky, went so far as to appoint special agents to "ferret out" personal property that had escaped the assessor, but this procedure yielded only doubtful results, and has all but disappeared from use

Missouri has recently adopted a new law to tax intangible personal property in accordance with the provisions of the new constitution. Under this law, property that produces no income is not taxed Common and preferred stocks in corporations are exempt, but bonds, notes and mortgages are taxed at the rate of 4 per cent of the annual income yield Every person owning in-

tangible personal property subject to tax is required to file a return on or before September 1, 1946. For 1947, and subsequent years, the return must be made on or before March 15, and the tax is based on the yield actually received by the taxpayer in the preceding calendar year

The present Missouri law provides means for checking the tax report of the owner by allowing the State Department of Revenue to use the income tax files to check the accuracy of intangible personal property return. Since the State of Missouri requires each income taxpayer to file a copy of his federal return with his state income blank, it becomes fairly easy to discover any failure to list all intangibles.

Property Tax and Income. A property tax is not, strictly speaking, a levy on the income of the particular property. Like all other taxes, it is paid from the general income of the property owner, from whatever source This tax has sometimes been taken as a presumed index — always a very imperfect one — of a person's general capacity or ability to pay, but in this statement it is not implied that property pays the tax

The sum from which the tax is paid may be derived from values which production with the use of the property has yielded; but then again it may not One can easily find many parcels of vacant or unused property which do not yield an income, and which may have been non-producing for years; yet these parcels of real or personal property are assessed and tax payment is demanded from the owner Many classes of durable consumers' goods, such as pianos, kitchen equipment, books, and ornaments, earn no money income But tax regulations usually require the owner to make declaration of this property for tax purposes The tax on property is frequently paid from income derived from other sources, and this is the case with property owned for productive purposes, but which for one reason or another fails to live up to the owner's expectations of a return Indeed, there are cases, usually in protracted hard times, when a property tax is to all intents and purposes a capital levy; that is to say, it is not paid from income which the property has produced, but from sums contributed by the owners, or from the proceeds of a sale of the corpus

The general property tax is, therefore, universal, nondiscriminatory, disregarding class or type or capacity for income

producing In fact, this universality may be one of the most important defects of the general property tax. To this extent it violates the canon of ability to pay Because of its early use, the general property tax was largely rural It still partakes of that nature, although used in highly industrial areas The tax is assessed upon the farmer when his crop inventories are at the lowest, or upon chain or department stores at certain periods of the year when their seasonal stocks are at a minimum Under such conditions, the tax makes some effort to comply with the canon of convenience

The general property tax does not necessarily coincide with income yield. It may fall at a time other than when the income is received In fact, it may and often does include property which is not income producing Considering the usual methods of property evaluation, namely, capitalization of net income at some convenient rate per cent, current market appraisal, and comparison with similar property which has been sold, there are numerous opportunities for discrepancies between imposition of the tax and the time of income to enter This failure to correlate with time of income may be regarded as one of the principal defects of the general property tax It violates the canons of convenience and ability to pay by requiring the taxpayer to meet his assessment at a time when he may not have the money or to pay it out of income from another source.

In spite of the many shortcomings of this tax, it still meets with favor in most states and local commonwealths, largely for practical reasons For local units and most states, it has become a source of great income, partly because of the elasticity of rates and partly because of the enormous increases in the value of taxable property In view of the magnitude of this tax income, and the difficulties of finding other sources, it is easy to understand why many states are loath to abandon the taxation of general property. The increase in assessed valuation of property in the forty-eight states and District of Columbia subject to levies of the general property tax for three periods is shown in the table on the following page

The substantial reduction in assessed value of general property for taxation in 1940 and the increase in total taxes from this source are due to the preceding depression years

The general property tax has many other virtues As is evident from the foregoing data, it can be made to produce

SUMMARY OF GENERAL PROPERTY TAX RECEIPTS,[6] 1912-1940

YEAR	ASSESSED VALUE OF PROPERTY	GENERAL PROPERTY TAXES	PER CAPITA ASSESSED VALUATION
1912	$ 69,452,936,000	$1,076,233,000	$ 715.48
1922	124,616,675,000	2,288,229,000	1,146 16
1932	163,317,104,000	3,175,994,000	1,311.67
1940	143,281,928,000	4,156,903,000	1,088.00

great quantities of income, over short periods of time, which are dependable and predictable. It is elastic and can be increased during depression and lowered during periods of prosperity It is, like sales taxes, a source of income which is relatively depression-proof.

Lack of Uniformity. Numerous variations exist among the states in the use of the general property tax. In 1932, for example, Pennsylvania, Delaware, Oregon, and California made no levy of general property tax for state purposes In 1939 some fifteen states either partially or totally exempted low value homesteads from taxation. During the depression other variations appeared, such as partial or complete cancellation of delinquent taxes over a specified number of years, repeal of penalties for failure to pay the tax when due, and many other concessions No doubt political reasons were uppermost in the last named provisions, but economic and social considerations were also involved Tax foreclosures increased greatly after 1929, due partly to the inability of property owners to pay. That meant the further destruction of savings which owners had invested in property

The average rate of levy per $100 of assessed valuation has shown a notable increase over the last twenty-five years In 1912 it was $1.94, in 1922, $2 81; and in 1932, $3 08 But here, too, there is a marked variation These figures do not reveal the averages for the particular states In 1932 these ranged all the way from $1 67 which prevailed in Kentucky to $11.16 which was the average rate in Florida. There is not even uniformity

[6] *Financial Statistics of State and Local Governments, 1932,* U S Department of Commerce, Bureau of Census, Washington, D C , 1932, p 6 For 1940 see *Financial Statistics of States, 1940–1944,* U S Department of Commerce, Bureau of Census, Washington, D. C., 1943, pp 6 and 23

in adjoining states, and natural geographical regions. This indicates something of the confusion among states in which the general property tax exists.

Wide differences exist also in the values upon which the assessment is based, as well as in the concept of "value." Such phrases as the following run among the descriptions as to method: "fair market value," "actual cash value," "fair cash value estimated at a price which the property would bring at fair voluntary sale," "true value in money," and various others[7] All this leaves plenty of leeway for the assessor who, in the great majority of instances, must use his own judgment.

In the case of Florida, which in 1932 had the highest rate among the states, "returns of real property, both inside and outside incorporated cities and towns, and of tangible personal property are required to show 50 per cent of the full cash value thereof "[8]

An attempt is sometimes made to give a rough classification of general property, and a rate is fixed for each class In Montana, for example, in 1932, taxable property was divided into seven classes, ranging from 7 to 100 per cent of "true and full value" Real estate and improvements, included in class 4, were taxed at 30 per cent of such values In North Dakota farm buildings and improvements were put in a class by themselves and exempted from all taxes All other property, real, personal, and mixed, was assessed at 75 per cent of the "full and true value"

Administration. The general property tax is a matter for the states to handle, each commonwealth making its own laws in this regard State legislatures have plenary powers for the enactment of general statutes which prescribe, sometimes in minute detail, the handling of the property tax from the first to final stage. This power of regulation may be extended to all local units In all this the states must keep within the provisions of their own organic laws and those of the Constitution of the United States.

In view of the great variety of conditions which exist over the United States, considerable differences must be expected in revenue needs, in procedure, and perhaps in theory as to the use and application of the general property tax. Some states are mainly agricultural, with taxable property consisting chiefly of

[7] *Ibid*, pp 1042, 1076, 1156, and 1995.
[8] *Ibid*, p 270

farm land, buildings, and implements of cultivation, with chattels of only small value, and with little or no intangible property; at the other extreme are the rich industrial states with wealth existing in many forms, each representing a large taxable value.

Examples may be taken from the procedure in several states In New York real property is assessed as of July 1 in the taxing district in which it is situated, with few exceptions, personal property is assessed in the taxing district in which the owner or his agent resides Assessors in each taxing district prepare an assessment roll. These rolls are then examined and equalized by county boards of supervisors, and delivered to the collectors in each district. The date when each of these processes is to be complete is fixed by statute.

When these stages have been completed, the work of collection begins Upon receipt of the assessment roll, each collector of taxes gives notice as to the places where he will receive payments during the next thirty days after publication of notices In the event taxpayers fail to respond within thirty days, the collectors are required to call upon every delinquent payer in their districts and demand payment. This procedure permits of some variation For example, some towns are required to elect a receiver of taxes, while in others the office of collector of taxes may be abolished and taxes are then collected by the town clerk.[9]

In Massachusetts taxes for state, county, and town, and for fire, water, and other districts are assessed by the several town assessors Real estate is assessed in the town where it is situated, and taxable personal property, within or without the Commonwealth, is assessed to the owner in the town where he is domiciled

In Texas all property, except that which is specifically exempt, is listed for taxation with the county assessor Cities with a population of more than 5,000, unless otherwise provided by charter, have the power to levy, assess, and collect such taxes as the governing body may determine, but not to exceed for any one year 2.5 per cent of the taxable property, such taxes being used for current expenses or permanent improvements.[10] Each city and town has an assessor and collector of taxes, unless the powers performed by such an officer have been conferred by the council upon other officers

[9] *Ibid.*, p 1211

[10] *Ibid*, p 806 In the case of both New York and Texas, the description is for conditions in 1932

One of the first tasks of a government, of whatever grade, is to decide how much revenue is needed to carry on the work of the coming year. That requires an estimate of probable income and outgo The next step is to decide what rate of levy will be required to supply the needed income This task is also undertaken by the various units of government which have the authority to make levies on property within their jurisdiction.

After fixing the rate that is supposed to yield the necessary revenue, the next step is the assessment of the property. In the assessor's office in any large city are plats, or charts, which indicate the location of types of property within the district, changes that have taken place in that property since last surveyed, and sale prices of nearby real estate, or other information that may aid the assessor in his work. Usually the work of the assessor requires weeks, sometimes several months. In the state of New York, for example, according to regulations prevailing in 1932, the assessor was given from January 1 to July 1 to prepare his tax rolls. But the property was assessed as of July 1. The dates of assessment vary from state to state

As a rule, the value of real property does not change materially from year to year Some states recognize this fact, and the assessment is not an annual procedure, but with a lapse of two, three, five years, or more In Ohio (1932) assessments of real property were made every six years; in South Carolina real property was listed every four years; and in Pennsylvania county assessments were made triennially by assessors of townships, wards, and districts

The valuation of the assessors is not final. They sometimes made mistakes; or more likely, taxpayers register complaints Hence, the laws usually provide arrangements for test or review. A board of review is a common device for handling such matters

The work of assessment usually falls to local bodies, that is to say, to officials in cities, counties, towns, and sometimes to other subdivisions This is far from an ideal condition The assessor is a local man and his interest is with the people of his community He sees to it that his assessments do not discriminate against the people in the division in which he lives. If anything, he errs on the side of too liberal treatment of his neighbors far and near But "competitive liberality" is never equal or uniform Thus the system imposes unequal burdens and violates the canon of equity among the taxpayers.

In tax matters the tendency always is, and has been, to try to shift the burden to other regions or classes This struggle is as old as taxation itself. One instance today is the effort, usually rather successful, of representatives of rural areas to increase the load that urban communities must bear There are many ways to attack these difficulties, all of them unsatisfactory One is to lay the burden of adjusting inequalities on boards of equalization, where the attempt is made to even out some of the disparities of local assessment Such work is usually done in a perfunctory manner, and without adequate knowledge of the inequalities which the plan is intended to correct The same criticism applies to attempts to equalize assessments among the various assessment divisions within a state.

These difficulties are as much part of this form of taxation as they are of the methods of administration. The transfer of the whole process of administration, from levy to collection, to state authorities would not solve the problem The state is a political as well as an economic unit That means that the business affairs of the state are not settled on economic principles alone Political pressures are always present. Moreover, the information upon which the state bases its procedures must be obtained locally, with the probable result that the old evils are still present

In cases where central assessment has been tried it cannot be claimed that it has met with more than mediocre success. One of the most troublesome factors in any system of assessment is that much of the real property of any region is not used for commercial purposes An appreciable amount is homestead, or residential As such, it is consumption, and not production goods This involves the foundation principles of value Whether a home is more valuable to the owner as consumption than as production goods is a difficult problem Tradition, like or dislike of neighbors, protection for the family against the fall of untoward events, among other factors, enter into the owner's estimate of the value of his home Thus, assessment on the basis of value must be more or less arbitrary This situation raises the debatable question as to whether property used for home purposes should be assessed on a different basis from real estate used for income production Local authorities cannot settle these matters; much less is the solution available to a central organization.

Again, assessment is a matter of particular pieces of property It does not help matters for the central authority to allot the amounts to be raised among the subdivisions according to an estimate of wealth or income or population, information which might be obtained from census and income tax returns Such an arrangement would still leave the levy on specific property to be determined, and this is usually the crucial point

To these various objections tax authorities reply, "We do the best we can, and let it go at that" And it might be urged against any particular form of taxation, however sound the principle or the practice, that inequalities and injustices will exist This is inevitable But the purpose is, or ought to be, to keep them to a minimum. In most cases the rule of expediency is the guide The state must perform certain desirable services Revenue is needed for these purposes Income must be obtained from many sources and by many devices Approximate or substantial justice is all that can be obtained

The property is usually assessed by the township, the other and higher grades of government, including the state, merely add or "*tack on*" their rates This method of raising revenue for the higher grades of government, especially the states, creates gross inequities among the taxpayers, which explains, in part at least, why so many states no longer derive any revenue from general property.

The assessment of general property is usually based on the market or exchange cash value Most state constitutions require all property to be uniformly assessed and taxed, unless specifically exempt by law This is the "uniformity rule" It is written into the constitution and not in a statute, so that it cannot be altered, amended, or repealed at the caprice of the legislature

Many forms of inequity may arise through faulty assessment The tax assessor may be inefficient and poorly trained He may be motivated to undervalue property because of friendship or for political reasons. Local assessors are usually elected and serve for only a short period each year and at small pay A few states, like Illinois, have provided a training period for assessors before they are sent into the field The trend is now toward state administrative boards of equalization or state tax commissions, or toward exempting personalty wholly or in part from taxation to adjust inequities among taxpayers These boards

or commissions usually consist of the governor, treasurer, auditor, and secretary of state.

Much property is not listed for tax purposes. Some realty and a considerable portion of personalty never get on the tax roll, and therefore, never pay any taxes. Real estate is not easily missed, but personalty may be concealed from the assessor by many methods This places a tremendous inequality upon realty. In fact, in some jurisdictions, so great is the escape of personalty that the property tax is almost tantamount to a single tax on the market value of realty

Classification of Property for Tax Purposes. Originally the strict application of the rule of uniformity required all property, regardless of kind or nature or amount, to be taxed at the same rate. Later realty and personalty were held to be taxable on different bases until finally they were both further classified into groups where economic distinctions could be drawn among the classes or units Thus the rule of uniformity was satisfied if the rate were merely applied uniformly to similar classes or units, and not necessarily to all the property in general

Every state in the Union has provided for classification of property for taxation in some form, first, by exemption, second, by applying different rates to different classes, and, third, by using a fixed rate but varying the per cent of actual valuation The motive for classifying property for taxation purposes is not the same in all cases In some instances the purpose seems to be to grant special concessions to certain classes of property, such as improvements, in other cases, to accomplish greater equity among the taxpayers, but principally in the interest of efficient administration Ohio, Minnesota, Iowa, and Wisconsin are particularly outstanding in the effort of property classification. Considering their efforts generally, their basic classes are as follows.

1. Land, platted and unplatted
2. Natural resources, such as mines and forests
3. Improvements and commercial property
4. Public property, or property put to public uses
5. Agricultural products
6. Live stock and farm implements
7. Non-income-yielding property
8. Miscellaneous

Land is often further classified, with varying tax levy, into agricultural, residential, forest, swamp, and unused In most cases natural resources are taxed as personalty at time of severance sometimes called a severance tax. The capitalization of the net income of commercial property at the expected rate of return forms the basis for determining its value for taxation. Public property instrumental to government, or non-income-producing property put to public use, is generally exempt Livestock, farm implements, and agricultural products are usually taxed on 25 to 50 per cent of their actual value Non-income-producing property, such as household goods and residences under, say $5,000, occupied by the owner, are either exempt or taxed on a very small percentage of their true value, sometimes as low as 10 per cent of their market or cash value.

It is a little difficult to generalize, but it seems that the old type of general property tax where one rate is applied to all types or classes of property or the amount of the base, is slowly disappearing In its stead is a more or less detailed classification of property upon which the levy is assessed.

Shortcomings of the General Property Tax. With these conditions in mind, specific criticisms of the general property tax may be examined The indictments thus far advanced refer mainly to administrative defects But there are other shortcomings which carry the reader into the realm of economic forces, and to the still more remote considerations of principles of justice in taxation

Consider the question of agriculture In rural communities a very large proportion of the taxable property consists of land used for the production of crops. Notably in the case of staples, which must be sold in competitive markets, both domestic and foreign, the tax burden is an inflexible element of cost. The tax charge does not change with the fluctuations of specific or general prices. This burden exists in bad years as well as in good, if for no other reason than that governments need more revenue in bad times

But what are the results? If the farmer wishes to avoid foreclosure, he must grow more crops, in the presence of growing competition. The price is forced to still lower levels The individual farmer wishes to save himself, and, as he sees it, the way of escape is to produce enough to cover living conditions

and other necessary charges. Thus, the tax acts as a pressure on the price. Interest on farm mortgages operates in the same manner, but this is not the chief problem under consideration here.

It may happen, as in the last few years, that government comes to the farmer's rescue, not with tax reductions, but with plans to elevate the price of products, or to grant benefits for crop curtailment — thus shifting the burden to other shoulders — sometimes with leniency on delinquent tax bills. The latter only postpones the evil unless, by one device or another, government eventually decides to cancel past-due taxes. This solution also creates financial embarrassment for the state, which has probably spent the money it expected to receive from taxes Hence, there is an increase of debt, or in the curtailment of certain governmental services Many school teachers in rural areas were the unfortunate bearers of this burden during the depression following 1933 when their salaries were not paid or they were given treasury warrants which passed at a discount among banks and merchants.

There is still another economic effect On various occasions reference has been made to the pressure of a tax as contrasted with the incidence Every thoughtful prospective property owner asks the question "What are the taxes, and what are they becoming?" In this manner the pressure of the tax acts as a deterrent to construction, thereby creating another pressure on all persons involved in the building trades This means the tendency to create unemployment all along the line from the producer of construction materials to the contractors and builders, and the men they employ Government housing subsidies are offered as a countervail for these and other difficulties, but they merely shift a tax burden to other persons Some of this burden, perhaps all of it, may come back to the very person who is the beneficiary of the subsidy It comes back in the form of higher taxes, both direct and indirect, on other commodities he buys A government which grants a subsidy must obtain the revenue Taxation is the only source.

It would not be otherwise if, instead of owning a home, a prospective builder decided that he could not incur the cost and remained a renter In this case, if the property is kept in good condition, the tax is included in the rental — an invisible tax. One means of escape is to live in a house which is deteriorating both with respect to neighborhood and to physical condition of

the property. Here the pressure takes the form of a declining standard of life.

There is still another economic difficulty with the general property tax. Manufacturers and merchants are usually owners of all kinds of property. When hard times come, both types of entrepreneurs are able to diminish their physical possessions by decreasing their inventories They convert goods into bank accounts But they do not necessarily escape the tax by this transformation The bank account is one item of general property and is usually taxable by many jurisdictions as such Since the tax rate usually is not adjusted to the movement of the business cycle, the burden presses with great weight upon the owners of general property in periods of long depression. Whence comes the money to pay the tax? In most cases, not from income, because the business produces none Thus the source is from past savings or from capital In such times, this form of tax becomes a capital levy payable out of part of the physical assets or investment

The fate of individual savers is no better than that of manufacturers and merchants The taxpayer is expected to declare not only his stocks, bonds, and mortgages, but his funds in bank For one reason or another, tax authorities have been extremely lenient with this form of personal property They have made no serious attempt to devise means to discover how much people own of this type of possession Hence, much of this property escapes But this is according to tax tradition and not by the mandates or exemptions provided by the law Possibly if search were instituted it would cause great migrations of funds from one state to another Unless all states used the same methods, and to the same degree, the escape through migration could not be prevented.

But what would happen if owners were required to pay taxes in full on such types of property? Consider first the case of savings in the form of bank deposits, one of the chief means of accumulation of small savers In 1936 there were over 41,094,000 savings depositors in the United States (evidenced by passbook accounts), with total deposits in excess of $21,000,000,000, or somewhat over $500 per account. If the interest rates on these deposits and the tax rates be contrasted, some idea may be had as to where the saver would stand if required to meet the levy on the total amount of his savings For this type of deposit,

interest rates over the country vary, but the customer is fortunate, indeed, who can obtain 2 per cent The average tax rate for the country as a whole in 1936 was slightly in excess of 3 08 per cent. In short, the tax was greater by at least 1 per cent than the interest rate Such a tax, if enforced, would amount to a levy on savings. This is not only an economic, but a social problem, because security is a paramount value in a civilized country A tax on savings is a tax on security.

The case is not much different with owners of other intangible wealth. The difference lies chiefly in the fact that the magnitude of the investment is larger, in some cases very much larger, than with savings accounts. The yield on high grade bonds is less, and has been for some time, than the average (national) tax rate on general property And the rate of return on low medium grade bonds, and on most stocks, is not higher than the tax rate In fact, unless the owner wishes to substitute a risk return for security, he is in a not much better position than the owner of a savings bank account

In the case of property which escapes taxation, the difficulty is probably as much with the high tax rate as with the form which it takes. No one can estimate what the effect would be on total tax income if rates were considerably lower. But it can be said with certainty that the tendency to escape would not be so great.

With respect to the tax on both visible and intangible property, one authority ventures this opinion: "Land and buildings, machinery, farm animals, and the like bulky forms of property cannot be concealed They are unfailingly assessed and fully valued by the tax officials But other forms of property can be concealed, or at least are not susceptible of such an accurate assessment Such are the stocks in trade of merchants and dealers, and goods in process of manufacture As to these, a declaration of amount and value must be sought from the taxpayer. This at once opens the door to understatement and evasion; the more so, because it brings an unwelcome intrusion into what are supposed to be private affairs, the temptation to evasion, of course, becomes stronger as the tax becomes heavier. A modest rate of $\frac{1}{4}$ or $\frac{1}{2}$ of one per cent on the capital value, such as was common in the American states a century ago, causes comparatively little trouble But when the rate rises to one, two, even three per cent, as it has done during the last half century, all the most hateful phenomena of taxation appear — lying and

equivocation by the taxpayer, alternate harshness and laxness by the officials."[11] In short, the higher the rate, the tighter the taxpayer gathers his cloak around him There may be a point of diminishing returns connected with the tax rate. If there is such a point, it can be determined only by experiment In this connection it may be worth observing that in 1932, of the assessed valuation of property in the United States subject to general property tax, the value of real property was set down as $124,706,000,000, while that of personal property was $29,897,000,000 There is hardly any use in trying to go behind the figures when other safe information is not available But at least the stated value of personal property seems unreasonably low as compared with the other type.

When the whole mass of property is lumped in one class and taxed at one fixed rate, the method of taxation is proportional, and not progressive. It violates the principle of progression, and may be actually regressive because the larger the amount that any one person owns, the less likely is the assessor to discover it. Also, so many wealthy people have large investments in personalty and intangibles which may escape entirely. But when one takes into account the extent of exemptions (tax-exempt securities, for example) and other methods of escapes, the tax may not even be proportional The rate on the total property may be higher for one of small possessions than for one of large. It has been said in this connection that "not even rude proportionality, which would result from taxing on the full property basis, is striven for in actual administration. The ultimate incidence of the system in this phase of its actual working is difficult to follow; but there is no ground for supposing that it brings results in accord with any principle of proportional taxation, still less of progressive taxation "[12]

Shiftability of the General Property Tax It is sometimes impossible to locate either the incidence or the pressure of the general property tax *About all that may be said is that the incidence of the general property tax is a compound of all the incidences of its several component parts* Thus both taxing authorities and payers are uncertain as to the actual effects of the tax. This can hardly be regarded as a desirable situation when people

[11] F. W Taussig, *Principles of Economics*, Vol II, p 530 (1915)
[12] *Ibid.*, p 535.

are trying to learn their real burden, and when the state proposes to adjust its tax system so as to obtain approximate justice

It has been said that it is because of the process of adjustment that the property tax, when confined chiefly to real property, ceases to be a subject for complaint and recrimination It becomes in large degree a shifted tax So far as it is on situs, it remains, to be sure, on the owners, but as these are probably purchasers of comparatively recent date, or have been holders for so long a time that capital value has been adjusted on the basis of a tax deducted from the income, they are hardly conscious of a burden from the levy The taxes on buildings tend to be shifted to occupiers; and those on buildings used for business tend to be shifted further through the occupier onto the community at large in higher prices There are, indeed, some persons who it is reasonably certain will feel a real and continuing burden of the tax. Such are those who own and occupy their dwellings The same is substantially the case of the farm owners On his dwelling the farmer pays the tax like any other house owner On the improvements to his farm he is, abstractly considered, in the same position as any other improver of the land, the tax may be shifted On moderate agricultural properties, however, held and tilled by their owners not only as business capital, but as homes, the process of shifting takes place slowly and with uncertainty On the other hand, it take place with comparative certainty for the great mass of buildings and other improvements on land, which are made simply and directly for investment, whether for use in production or for rental as dwellings How difficult it becomes to say whether the final outcome is in accord with any principle of justice in taxation!

A word is necessary concerning owned, but unused, natural resources. Large amounts of timber and mineral resources are held by large companies, and even by individuals, as a reserve for future productive use. In many cases it seems advisable to look ahead to the exhaustion of properties at present under exploitation Future supplies will be necessary. To tax such reserves according to the general methods of administration of the general property tax leads to wasteful use of the natural resource, because to obtain an income with which the tax can be paid it is often necessary to develop unused resources beyond the market needs for the products which they yield. Many

states have wisely foreseen this contingency and have adjusted their laws to meet this condition

The Capital Levy. The term "capital levy" is ordinarily used to include all heavy, non-recurrent, progressive taxes that are imposed by the state upon real and personal property as of a given date and that take not only all the current income of the base, but part of the property or investment itself The capital levy therefore, should not be confused with the excess profits tax with which it is sometimes erroneously compared Such tax is usually proposed or used as an extraordinary means of lump sum debt settlement or debt retirement, and might very well be discussed under this general heading. This was the idea of Ricardo and Mill who were the first to propose such kind of levy for England.

The use of the capital levy on general property was revived as an emergency measure after the close of World War I by many countries of Europe, Germany, Italy, and Poland among others In all instances the tax was imposed *once* at a given time on both personalty and realty, it was made progressive, and the payment was usually spread over a period from ten to twenty years so that it could really be paid out of income In Hungary, for example, the capital levy not only included all forms of real and personal property, but also such property rights and choses in action as corporative securities, bank deposits, and foreign money and securities.

The British movement to impose a capital levy on war profits grew out of the great burden of the accumulated national debt after the close of World War I By 1917, and later, the British national debt had reached such great proportions that its service and retirement outlays could not possibly be met at that time out of the current national income It was proposed, chiefly by labor, that a capital levy be imposed on all wealth and profits accumulated as a result of the war to be used to scale down the debt by one lump-sum payment to that point where it could be managed by the current national income This special tax was seriously and favorably considered by Parliament and by such eminent economists as Pigou, Sidney and Beatrice Webb, and Dr. Hobson But chiefly because of practical difficulties of administration it was never imposed The chief argument in favor of the capital levy in England and in other countries was

that by imposing it on fortunes made out of the war it could be made to fall especially upon those enriched by such means On the other hand, the administration of such type of levy encountered almost insuperable practical difficulties. It was very difficult, if not impossible, to determine the rate and base of such levy, and the means and methods of its payment The idea was hastily dropped in both France and Switzerland because, among other reasons, it was driving invested capital out of the country It is extremely doubtful if any country so imposing a capital levy could point to its use with pride and profit. The capital levy as a source of income to any grade of government is unsound from practically every angle it can be considered.

The capital levy, as such, has never been imposed in this country The nearest approach to such levy has been when a tax has been put so high as to require taking part of the base or capital to pay the tax But as was explained in an earlier chapter, the fact that a tax is imposed so high as to take all the income, or even part of the capital investment, to make the necessary payment, is hardly a defense by the taxpayer against its levy. If the capital levy were imposed by the federal government, it would most likely be held by the courts to be a direct tax. It would, therefore, have to be apportioned, or, if imposed by the states, applied according to the rule of uniformity, but in any event these questions are more in the nature of administrative than constitutional problems; and administrative problems of taxation should never be confused with constitutional questions

It would seem obvious that the capital levy tax could not be shifted immediately However, in the long run, as capital is driven out of production thereby increasing prices, the capital levy tax may have its general diffusion or pressure effects.

The Single Tax. One of the most celebrated movements of land tax reform was that of the so-called single tax. This theory was originated principally by the physiocrats of France, and by Henry George of Philadelphia, later of California, and still has many advocates. There have been many variations on the orthodox theory, such as the Pittsburg and the Lloyd George plans of more recent dates

It was a proposal to finance all the functions of government by taking annually all the economic rent or increment increase in the site value of land The fundamental economic tenet of

the single tax is the Ricardion theory of rent A clear distinction should be made between income from land which is a return on its use, and economic rent of land or land value which is due mainly to the growth of the community In this latter case, the single taxers contend that the increment increase in the dollar value of a piece of land is the direct result of the pressure of population and in no way is it to be attributable to the labor or use by the particular owner Since land is limited in quantity its value will necessarily rise in some proportion to the pressure of population irrespective of the efforts of the owner. Since this increase in land is due to society the single taxer holds that it is an unearned increment in the hands of the owner and therefore properly belongs to the entire community. He further contends that the government should seize this unearned increment of land value to be determined by annual appraisement and spend it on schools, roads and other government functions for the common benefit of the entire community

Since the single taxer would take only the unearned increment in land value and not that which is the result of the owner's labor, therefore the single tax need not discourage the use, occupation, or improvement of land. In fact, he claims that such tax would stimulate these improvements since they would be exempt from all levies

The single tax as advocated by Henry George should not be confused with the tax plan of Lloyd George of England on land increment value Henry George would finance the entire operation of government by taking all the annual increment increase in the site value of land to be determined by appraisement, whereas Lloyd George would take only the increment whenever there was a sale of the land. It is needless to say that in both cases decrements in land value were ignored

The City of Pittsburg, or the so-called Pittsburg Plan, has in effect a plan whereby land is taxed at its full value with 50 per cent exemption of all improvements The city has experienced considerable practical difficulties in the enforcement of its plan It is therefore impossible to speak with certainty in regard to the results of its operation

The single tax is defective in many important respects First it is totally inadequate fiscally It could not possibly supply the needs of local units of government, to say nothing of the state and federal requirements Second, even the single taxers have

no practical method of its determination, levy, and collection It would be a practical impossibility to determine the annual increment increase in the site value of a particular piece of land Third, why limit the taking of the annual increment increase to land when all other forms of property exhibit this same tendency? Fourth, the single tax, as advocated by Henry George, would fall upon land owners only, when owners of other forms of property have equal or greater ability to pay

The single tax on land values is one levy which cannot be shifted, at least immediately Being a tax imposed upon surplus, its incidence will remain upon the owner of the land and be paid out of the economic rent This is true when the land owner is exacting from the tenant all the surplus above costs of operation The single tax on economic rent may have the diffusion or pressure effect of driving land out of one use into another

Summary. The Taxation of property, especially that of realty, dates back to a very early time in history It is still a basic form of income to many modern governments With the appearance of personalty and of intangibles, the tax was then made to fall on general property, or the sum total value of all forms of real, personal and intangibles

Because of its very great inequity arising chiefly out of administration, the taxation of general property is being generally dropped by about all forms of central governments In the United States, the federal government does not presently use general property as a source of income, even though such levy is constitutionally possible when apportioned among the states according to population A few states, such as Illinois, have discontinued entirely the taxation of general property for state purposes. Other states use it only to a very limited extent, and some of them only for special purposes. In 1942 only 5 44 per cent of the total revenue of the states was derived from the taxation of general property. But the local units, such as the school district, county, township and city, use it to a very large extent, in some instances, as in the case of the school district, they derive their entire income from this source It seems that the smaller the assessing unit the more equitable the general property tax becomes. This greater equitableness arises out of the fact that the value of the property may be assessed more uniformly, and

that a greater percentage of realty and especially personalty can be got on the tax books by the smaller administrative unit

Aside from the inequity arising out of variations of assessment, the escape of personalty is one of the major defects of the taxation of general property. The land, or real property, is fixed and cannot be hidden very easily from the tax assessor, but a very large part of personalty escapes assessment and hence taxation Various methods of detecting this escaped property have been devised, chief of which is an agency or board created by the taxing unit for this purpose Penalties are affixed against the taxpayer for failure to declare all his taxable property, but even this method has not solved the problem of escape

At first, the taxation of general property consisted of a single proportional rate imposed at the same time on the sum total of the taxpayer's property of every type, kind, or from regardless of its income earning capacity Later property was classified into realty and personalty for purposes of taxation Finally, the legislatures, sustained by the courts, began classifying realty and personalty into groups or classes to which different rates and other conditions for taxation were applied

The taxation of intangibles has always given rise to many problems At what rate, if at all, and on what valuation should mortgages, instruments and forms of credit, stocks and bonds, copyrights, patents and trademarks be taxed? If taxed, upon whom should the levy be imposed?

In general, property taxes should be listed among those levies that may be shiftable About all that may be said is that the incidence of the general property tax is a *compound* of all the incidences of its general component parts

The capital levy, as such, has never been imposed in this country But it has been used in many countries in Europe It is an emergency measure imposed on all types and classes of property that takes all the income and part of the capital to pay the tax It is usually levied as a means of debt reduction or debt settlement

The single tax is a land tax reform It is designed to take all the increment increase in the site value of land, and since all the functions of government are to be financed from this one source, it is known as a single tax

The capital levy on property and the single tax on site value of land cannot be shifted, at least immediately

TEXT QUESTIONS

1. What are the five principal sources of revenue to a government?
2. What is the historical significance of the general property tax as a source of revenue to the federal, state, and local governments?
3. How do you explain the fact that the federal government collects nothing from general property, the states collect little to nothing, and the local governments use it so extensively?
4. What were some of the early forms of the general property tax? What were some of the problems which appeared in its early use?
5. In its present connotation, what is meant by the term *general property tax?* Is it a tax that is really general in nature?
6. May general property be classified for taxation purposes? What are the criteria of such classification? May the rate be graduated?
7. Why do many states exempt personal property, either entirely or in part, from taxation?
8. What can be said for and against the taxation of intangible personal property? Why is the income on corporate stocks frequently exempt?
9. To what extent is general property a measure of a person's ability to contribute to the expenses of government?
10. What about the correlation of income derived from general property and the obligation of the tax imposed upon it?
11. The general property tax is sometimes said to be universal and nondiscriminatory. Are these qualities to be regarded as merits or demerits of this tax?
12. In general, how does the general property tax respond to changes in the business cycle?
13. With reference to jurisdiction, distinguish the taxation of personalty and realty. To what extent is the doctrine of *mobilia sequuntur personam* still followed?
14. In general, what is the usual interfiscal relationship between or among levels of government where the general property tax is used? Is this an advantage or a disadvantage of the general property tax?
15. How do those states that have dropped the use of the general property tax as a source of income get along without it?
16. To what extent does the general property tax lack uniformity even in the same state or in the same locality? Is this a defect of the general property tax, or is it an adaptation to local conditions?
17. What are the rules in regard to the valuation of real property for taxation purposes? Actual market value? Last sale? Appraisement? Comparison with comparable known value? Capitalization of economic rent at a rate per cent?

18. What, if any, exemptions are usually allowed in the taxation of general property?
19. What is the shifting and incidence of the general property tax?
20. To what extent have such measures as "tax ferrets", severe penal laws, and boards of equalization mitigated or illiminated the defects of the general property tax?
21. Would better-trained assessors or assessors that were appointed instead of being elected improve the equity of the general property tax?
22. What is a capital levy? Is it ever defensible?
23. What have been the experiences of some of the countries of Europe with the capital levy? Has it ever been used in any form in the United States?
24. What is Henry George's single tax on land? Has the single tax ever been put to any use in this country? Why?
25. What is the Lloyd George plan of taxing land increment values?

RESEARCH TOPICS

1. Make an extensive study of the laws of your state and community that pertain to the taxation of general property. Visit your local tax assessor and ascertain as many facts as you can in regard to the administration of the general property tax. If your state derives income from general property, look into the inter-fiscal relationship between it and the local units.
2. Call upon your state tax board of equalization and ascertain what it does to make the administration of the general property tax more equitable and efficient Does it seem to you that its work is effective? Why? What recommendation do you have to make?
3. How does your state and local unit of government tax intangibles? Do you find any cases of tax exemption to encourage capital migration into your state or community or to prevent it from leaving?
4. Examine into the effect of the cyclical changes in business on the general property tax. Is it depression proof? Does it have elasticity and stability of income?
5. Select a small business and residential area in your community and make a concrete study of the application of the general property tax. Note methods of determining valuations; escape of property from taxation, classifications, delinquencies and tax sales

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CHAPTER 22

TAXATION OF PERSONAL INCOMES

The origin of taxation of incomes reaches far back in history, even in ancient history. In something like its present form, the income tax was first attempted by England in 1798 as a war measure. In 1799 another act was passed which was called "an Act to Repeal the Duties imposed by the Act made in last session of Parliament for granting Aid and Contribution for the Prosecution of the War; and to make more effective Provision for the Purpose by granting certain duties upon Income in lieu of said Duties" The tax was imposed upon all residents of Great Britain in respect to their entire income With but few exceptions, England has relied heavily on the taxation of incomes in some form until the present; but it has always been administered by the central government with division of yield among the local units This same reliance on the taxation of incomes as a source of revenue and, except in the United States, on central administration, is also true of all the governments of the world

In this country, the colonies used the taxation of incomes as a source of revenue which they continued in some form after becoming states. Today, most states in the Union as well as the federal government levy on incomes, both individual and corporate In the United States, wherever a tax on income is now used, it ranks as one of the first in the production of revenue

Early Federal Income Tax Laws Taxation of incomes by the federal government was first proposed by Congress during the War of 1812-1814 At that time, the principal sources of revenue to the federal government were customs duties and a few excise taxes Although the war of 1812 proved to be so expensive that additional sources of revenue were needed, the proposed tax on incomes, like the proposed tax on inheritances, never became law

The first federal income tax law was actually passed on August 5, 1861,[1] and continued in effect, with several changes, until it expired in 1872 During that period, when revenue was so badly needed to prosecute the Civil War and for post-war reconstruction, the Supreme Court sustained the constitutionality of the Acts

[1] 12 Stat 292, 12 Stat. 309

between 1861-1872 in two unanimous opinions, holding that the taxation of incomes was *indirect* and therefore need only be uniform throughout the United States[2] In the Springer vs United States case, the Court said, Justice Swayne speaking:

> Our conclusions are that *direct taxes*, within the meaning of the Constitution, are only capitation taxes, as expressed in that instrument, and taxes on real estate; and that the tax of which the plaintiff in error complains is within the category of an excise or duty

Between 1872 and 1894 there were no federal attempts to tax income. In 1894, another federal law was passed taxing incomes, but it was rejected almost immediately by the United States Supreme Court by a vote of 5 to 4 on the gound that it was a direct tax on property and if it was to be used constitutionally it would have to be apportioned among the states according to census of population.[3] Since this method of administration was impossible the tax had to disappear

In the Pollock case, Chief Justice Fuller, speaking for the Supreme Court, said:

> Our conclusions may, therefore, be summed up as follows·
>
> First We adhere to the opinion already announced that taxes on real estate being indisputably direct taxes, taxes on the rent or income of real estate are equally direct taxes
>
> Second. We are of the opinion that taxes on personal property or on income of personal property, are likewise direct taxes
>
> Third The tax imposed by Sections twenty-seven to thirty-seven, inclusive, of the Act of 1894, so far as it falls on the income of real estate and of personal property, being a direct tax within the meaning of the Constitution, and, therefore, unconstitutional and void because not apportioned according to representation, all those sections, constituting one entire scheme of taxation, are necessarily involved.

In the Pollock case, the Supreme Court made it clear that an excise tax was indirect and therefore need not be apportioned; such rate need only be uniform throughout the United States Accordingly, in 1909, a tax was imposed on incomes of corporations by calling it an excise tax on the privilege of carrying on or doing business as a corporate entity The rate in this 1909 act was fixed at a very low per cent on corporate incomes, and a small exemption

[2]Pacific Insurance Co. v Soule, 74 U S. (7 Wall) 433 (1868), Springer v. U. S , 102 U. S 586 (1880); also see Scholey v Rew, 23 Wall. 331 (1874)

[3]Pollock v. Farmers' Loan and Trust Co., 158 U S 601 (1895).

was allowed. The constitutionality of the Act of 1909 was duly sustained by the United States Supreme Court.[4]

Because of the need for a general income tax on individuals, as well as on corporations, the Sixteenth Amendment was proposed and later added to the federal Constitution, although such a tax could be imposed on corporate incomes without benefit of the Sixteenth Amendment This Amendment was passed by Congress on July 12, 1909, and its adoption was consummated by the necessary three-fourths of the states. It thereby became part of the federal Constitution on February 25, 1913.

The Sixteenth Amendment to the federal Constitution reads as follows.

> The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

It should be borne in mind that the Sixteenth Amendment added no new tax power to that of the federal government; the federal government always has had the power to tax income if the tax was apportioned[5] The purpose of this Amendment was solely to eliminate the requirement of apportionment of taxes on income The Amendment, therefore, merely overcame the objections raised in the Pollock case. It should be kept in mind, furthermore, that a direct federal tax, not on income, is not freed by the Sixteenth Amendment of the requirement of apportionment.[6] The question of apportionment does not apply to the taxation of incomes by the states Barring prohibition by its constitution, a state legislature may call anything income and tax it accordingly, provided the classification is not unreasonable, capricious, or arbitrary, and provided the tax does not violate the rule of uniformity among classes, and is not on interstate commerce.

Without delay, perhaps in anticipation of World War I, Congress on March 1, 1913, imposed an income tax which, with more than thirty-five major modifications and amendments, has been in continuous operation since that date The constitutionality of the Act of 1913 was unequivocally upheld by the United States Supreme Court in Brushaber v Union Pacific Railroad Company,[7]

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[4] Flint v Stone Tracy Company, 31 S Ct. 342 (1911), also see Provident Institution v. Massachusetts, 6 Wall (73 U. S) 611 (1867)

[5] Evans v. Gore, 253 U S 245 (1920)

[6] Eisner v Macomber, 252 U S 189 (1919)

[7] Brushaber v Union Pacific Railroad Co 240 U S 1 (1916)

thus bringing the constitutional issue of federal taxation of incomes to a close.

Throughout its long history in the United States, at least until recently, the income tax has been regarded primarily as an emergency war measure, to supplement levies on property and excises, or in lieu of the latter In its early use, almost insuperable difficulties were experienced in its administration, especially in the definition of income In fact, many distinguished tax economists and legislators went so far as to predict around 1890 that the income tax would never become a substantial and dependable source of income to the federal or state governments. Many states abandoned its use because of the problems involved, only to return to it later as they devised better procedures of levy and collection. Only its obvious equity and possibilities as a source of great revenue caused the states and federal government to refuse to discontinue the taxation of incomes In fact, so much does the equity of the taxation of incomes appeal to some people, that they have proposed it as a "*single tax*," exempting entirely all other sources of revenue to federal and state governments

Early State Income Taxes. For over a century most states have had at least some experience with income taxes on individuals or corporations, or both Wisconsin was the first state to pass a comprehensive income tax law in 1911; other states quickly followed Possibly, from the point of view of present practice, the experiences of the states showed what was to be avoided rather than what was to be employed in the taxation of incomes On the whole, until recent years, these taxes were not very productive The laws were defective in provisions for administration; officials were lax in enforcement; definitions of what was taxable, and what was not, left much to be desired, thus increasing the difficulties of administration

Through the years there was much resistance to this form of taxation, a factor which led to considerable evasion. The persistent argument against the taxation of incomes was that the system was inquisitorial, that it compelled the revealing of information which in reality should be strictly private, and that it was contrary to the spirit of democracy Concerning the federal income tax bill in 1861, Representative Morrill said:[8]

[8]Congressional Globe, March 12, 1862, 37th Cong 2nd Sess, p. 1196.

> The income tax is an inquisitorial one at best; but upon looking at the considerable class of State offices, and the many thousands who are employed on a fixed salary, most of whom would not contribute a penny unless called upon through this tax, it has been thought best not to wholly abandon it Ought not men, too, with large incomes, to pay more in proportion to what they have than those with limited means who live by the work of their hands or that of their families?

Although some colonies used levies which suggest the income tax of today, those taxes are of little or no significance as precedents for present practice Their introduction had no reference to theories of taxation nor to the moot question concerning justice in taxation, the purpose was to supply an added source of income, usually as a supplement to the property tax These levies went under the name of "faculty" taxes, and rested mainly upon trades, professions, and occupations In some cases, however, as with Massachusetts and South Carolina, they formed the first crude and rather imperfect beginnings of the modern system of income taxes No doubt in some instances they served the purpose of preparing the people for the introduction of more elaborate forms of levy, which subsequently became practice, and of revealing to other states and, ultimately, to the federal government, a productive source of income

At one time or another from about 1840 to 1890, more than a dozen states used personal income taxes These included Pennsylvania from 1841 to 1871, Maryland from 1842 to 1850, Alabama from 1843 to about 1866, Missouri from 1861 to 1866, Georgia from 1863 to 1866 Until 1933, Florida prohibited in its constitution the use of income or inheritance tax at all, in order to induce wealthy residents to come to the state

In some instances special revenue needs led to the introduction of this tax, as for example, the debts incurred during the internal improvement era and particularly in the southern states during and after the Civil War Some states that once used and then abandoned this tax, have come back to it since 1900 Since that date, the increasing needs for revenue have been a partial cause, but the tax is now justified by the fact that it accords reasonably well with the canons of taxation, notably in providing a means of distributing the burdens of government according to ability to pay. The technique of its administration has also been greatly improved and simplified both by the states and the federal government

In its employment, the states used most of the well known variations. In the words of one authority, "Every possible method has been tried. The tax has been levied as a general income tax upon all forms of income, and as a special income tax upon one or more forms of income; without regard to the source of the income and modified according to the source; as an apportioned tax, and as a percentage tax. The rate has been made proportional, progressive, and partly proportional and partly progressive The exemption has been a fixed sum applied to all incomes and a sum varying with the form of income and with particular classes of individuals. The administration of the law has been under the direct supervision of the central government, and it has been left to the option of the local units. The tax has been employed strictly as a war measure, as a peace measure, and as both "[9]

Recent State Income Taxes. During the last decade, income taxes, both individual and corporate, have come into rather wide use among the states. In 1930 fifteen states showed collections from individual incomes, the number in 1933 was twenty-eight, and in 1946 thirty-three In 1930 sixteen states reported receipts from corporate income taxes, the number in 1935 levying on this source was twenty-eight; and in 1946 thirty-two.[10] This statement, however, does not convey a true picture of the relative importance among the states of this source of revenue During the years from 1930 to 1935, excluding the federal government, three states, Massachusetts, New York, and Wisconsin, regularly collected more than four-fifths of the individual income taxes; and four states, California, New York, North Carolina and Wisconsin, more than two-thirds of the corporate income taxes.[11] In 1946 four states, California, Massachusetts, New York and Wisconsin, collected more than seventy per cent of the total taxes on individual incomes; and five states, California, Massachusetts, New York, Pennsylvania, and Wisconsin, collected slightly more than the same percentage of taxes on corporate incomes.[12] This means

[9] D. O. Kinsman, "The Income Tax in the Commonwealth of the United States, *Publications of the American Economic Association*, 3d Series, Vol. IV, No 4, November, 1903

[10] *Collections from Selected State-Imposed Taxes, 1930-1936*, Division of Research and Statistics, Treasury Department, p 13. For 1946, see *State Finances, 1946*, U S. Department of Commerce, Bureau of the Census, Government Printing Office, 1947, Table 5, p 9

[11] *Ibid.*

[12] *State Finances, 1946*, U. S. Department of Commerce, Bureau of the Census, Government Printing Office, 1947, Table 5, p 9

that only relatively small amounts of taxes from incomes were collected by the other states using these sources of revenue.

It is worth observing that with both individual and corporate income taxes, the states, so far as they use these imposts, and the federal government are deriving revenue from the same source. As among the various authorities, there are differences in the manner in which the tax is imposed, and sometimes differences in methods of administration; but, in any event, and in all cases, it is income which supplies the revenue

This has led to the charge that the use of the income tax by these two authorities constitutes double taxation. It is not easy to decide the merits of this controversy In some cases the attack is based on the justice of the levies, that is to say, it is unjust to tax the same source twice Connected with this is the argument that double taxation tends to become confiscatory. In some cases, the taxation of income does amount to *double* taxation in the technical sense when the tax is levied by the same unit of government, in other cases, the same income is only taxed *multiply* by two or more units of government at the same time

Possibly the real issue is in the amount taken by the two authorities, and the amount that remains to the recipient of income, rather than the fact that the individual or corporation is taxed twice on the same source. This condition of double levy is to be found in other instances besides income taxes It is rather common practice for both federal and state governments to derive income in one form or another from the same sources, this is often the case with estate and inheritance taxes, and with sales taxes and levies on liquors, tobacco, and gasoline.

Civil War Income Taxes. During its income tax history, the federal government has enacted over thirty-five statutes, modifications, and amendments to its laws relative to the taxation of incomes It is therefore impossible and unnecessary to discuss all these measures. But certain acts should be studied in order to trace the development and improvement of the technique of administration of this source of governmental revenue to the present time

The use of the income tax by the federal government during the Civil War period was particularly distinctive in that it was a departure from the usual methods of financing, even in emergencies Until that time, the federal government had depended

almost entirely on custom duties and excises on a few commodities for its total revenue. As one authority has said: "It is a matter of some surprise, in view of the prejudice which exists in the American mind against any tax which is at all inquisitorial in character, that Congress should have had recourse to the income tax in 1861,[13] when the apportioned direct tax was imposed, and before any attempt had been made to open up the more available forms of indirect taxation."[14]

Possibly the need of immediate revenue to finance the Civil War was one of the reasons for the use of the income tax At that time the federal government had few facilities for making loans It had completly severed its relations with the banking system of the country about 1836. It was supposed that the income tax would be immediately productive and, in addition, that its application was capable of great extension in case of need It was, however, characterized by its sponsor as one of "the least defensible" of the proposed taxes, but worthy of retention because of "the considerable class of state officers, and the many thousands who are employed at a fixed salary, most of whom would not contribute a penny unless called upon through this tax."[15]

There were flaws in this reasoning, perhaps excusable at that time, when the doctrine of incidence was little understood The fact is that the apportioned taxes and the projected indirect taxes would and did reach all classes in the country Moreover, it might be added that an income tax in some form was not altogether new in the United States, because it had been employed occasionally by several states, although usually as an emergency source of income

The Act of August 5, 1861, was moderate in its impositions, although in some respects it would not have satisfied the ideas of many modern legislators, particularly with regard to progression, exemptions, and deductions. All incomes in excess of $800, from whatever source, were subject to a 3 per cent tax, one exception being United States securities which paid 1 5 per cent In computing income for the purposes of the law, deductions were permitted for taxes paid to national, state, and local authorities The duty was self-assessed upon schedules supplied to the prospective payer Thus this first act very mildly suggested progression,

[13] Act of August 5, 1861
[14] Frederic C Howe, *Taxation and Taxes in the United States Under the Internal Revenue System* (Thomas Y Crowell Co., New York, 1876), p 90
[15] *Ibid.*

exemption, and deductions. The levy was assessed but once, because Congress replaced this law with the Act of July 1, 1862.

The Act of 1862 was supplemented about two years later, June 30, 1864, by a more comprehensive measure, but it is worth observing some of the features of the law of 1862 since they indicate the trend of development in income tax thinking For one thing, the exemption was reduced from $800 to $600; in addition, the law made application of a very moderate progressive principle; incomes between $600 and $10,000 paid 3 per cent and those above $10,000 paid 5 per cent Collectors were specifically instructed to the effect that returns of incomes should not be open to public inspection Incidentally, this feature has troubled tax administrators in recent years The evils of publicity for income tax returns on the one hand, or of keeping the information merely for departmental use, on the other, seem to be inherent in the income tax system. Without publicity there is apt to be a good deal of evasion, with it, among other troubles, the taxpayer is harassed by solicitations of all kinds and descriptions, and, moreover, private information is revealed to persons who have no right to receive it

The progressive principle was employed more extensively in the Act of June 30, 1864 A rate of 5 per cent was applied to incomes between $600 and $5,000, between $5,000 and $10,000 the rate was 7 5 per cent, all incomes above $10,000 paid a uniform rate of 10 per cent

Certain deductions were permitted, for example, a householder was not required to report the annual rental value of the home whether he was tenant or owner In some respects, the methods laid down in the act for computing annual gains imposed almost impossible conditions upon the taxpayer With farmers, for example, the requirements demanded very definite returns of all "incomes and gains derived from the increased value of livestock, whether sold or on hand, and the amount of sugar, wool, butter, cheese, pork, beef, mutton, or other meats, hay, grain, or other productions of the estate of such person sold "[16] Not only were those requirements vexatious and burdensome, but they were difficult to apply, if substantial uniformity was expected in the returns of taxpayers, especially since the farmer did not keep a very adequate set of books on his business

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[16]Frederic C Howe, op cit., p 92

Several days after the enactment of the Law of June 30, 1864, Congress imposed a special, and additional, income tax on all incomes in excess of $600 Only one assessment was made under this law

The close of the war brought relief to the urgent demands of the Treasury Expenditures suddenly decreased and revenue continued at a high level. This situation stimulated a demand for a repeal of the income tax laws Congress was not willing to take this step at once, but the law was gradually relaxed. The Law of March 2, 1867, raised the exemption to $1,000, with a flat rate of 5 per cent on all incomes in excess of that amount; the exemptions were raised to $2,000 by the Act of July 14, 1870 This tax system expired by limitations in the act in 1872

Through the eleven years from 1861 to 1872 in which collections were made under the various Civil War income tax laws upwards of $346,000,000 was collected by the Treasury, a sum not inconsiderable for financing the emergency. Receipts were notably large during the prevalence of the higher rates The largest return was in 1866 when the Treasury received $72,982,000. The income tax had been regarded as an emergency source of income The gradual reduction of the national debt, and the surplus of revenue during many years prior to 1890, rendered further use of this form of taxation unnecessary

The Act of 1894 During the twenty-two-year period from 1872 to 1894, there were no attempts to tax incomes by the federal government But the issue of taxation of incomes arose again when tariff measures were under discussion in 1893 and 1894 The income tax was not presented as a separate bill, but as an emergency revenue measure as a part of the Wilson Tariff Act, which became a law on August 27, 1894 Although the tariff act was unsatisfactory in many respects, its proponents succeeded in effecting a considerable reduction in some import duties and of making additions to the free list These changes introduced the prospect of a reduction in customs revenue The inclusion of the income tax provision was necessary to make good the revenue lost by the tariff The Act of 1894 provided for a tax of 2 per cent on all incomes over $4,000 Thus the modern use of income taxes as a regular source of federal income had its beginnings about that time

The effort to shift the burden of a tax to other classes is as old as tax legislation itself, and it appeared with the income tax provision of the Act of 1894 The measure was supported mainly by representatives from the South and West, where the high exemption of $4,000 would relieve most people of the burden of the tax The plan received very little support from representatives from New England and the Middle Atlantic states where, obviously, because of the greater wealth, the chief weight of the tax would fall All the old objections were raised against the measure, namely, that it was inquisitorial, contrary to the spirit of democratic institutions, promotive of fraud and evasion, discriminatory against the thrifty elements of society, and administratively impossible. In later discussions, the economic questions came to the fore as reason for greater moderation in the levy, particularly with reference to income in the higher brackets.

Another argument brought against the income tax was that it was unconstitutional. It was on this basis that the matter was brought into the courts Four issues were involved: (a) whether a tax on the income from real estate was a direct tax within the meaning of the Constitution, (b) similarly, whether a tax on income from personal estate was direct; (c) whether the tax infringed upon the principle of uniformity; and (d) whether it was constitutional to impose a tax on state and municipal bonds. In an opinion on April 8, 1895, the tax on rent and income from land was held to be a direct tax, and thus unconstitutional unless apportioned The court was evenly divided on the second and third issues as stated But upon a rehearing one justice changed his decision, with the result that the entire tax was declared unconstitutional on all four counts.[17]

In those decisions the legal and economic views were brought into contrast. Economists have not been concerned with legal arrangements, but have sought an answer to the question. "Where is the final resting place of the tax?" In their view a direct tax is one which cannot be shifted. Thus the economist would have given quite different answers to the issues stated above from those given by the court

In 1909, Congress passed another income tax, but this time only on corporations It provided for 1 per cent levy on corporate incomes in excess of $5,000 The tax was called an excise on the privilege of doing business measured by income. This measure

[17]Pollock v Farmers' Loan and Trust Co, 157 U S 429 (1895), on rehearing, 158 U. S. 801 (1895).

was also contested, but sustained by the United States Supreme Court in the famous case of Flint v Stone Tracy Company.[18]

The income tax, especially on individuals, became an issue which finally emerged as the Sixteenth Amendment (proclaimed February 25, 1913) to the effect that "The Congress shall have power to levy and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration."

The Act of 1913. Congress promptly took advantage of the tax power conferred by the Sixteenth Amendment A prospective shortage of federal income because of the reduced duties of the Underwood Tariff of 1913 and of the imminence of a World War made necessary a quest for new sources of revenue Levies on incomes were expected to fill the gap The Tax Law of 1913 was moderate, in fact, decidedly more so than the Civil War income taxes The exemptions were much more liberal and the maximum rates lower but more progressive than with the predecessor income taxes The law permitted deductions for, among other items, worthless debts, losses not covered by insurance, taxes paid to other authorities, necessary expenses for carrying on a business, and taxes collected at the source. A normal tax of 1 per cent was imposed on persons with incomes in excess of $3,000 or $4,000, depending on whether their status was single or married And surtaxes were imposed as follows·

$20,000 to $50,000	1 per cent
50,000 to 75,000	2 per cent
75,000 to 100,000	3 per cent
100,000 to 250,000	4 per cent
250,000 to 500,000	5 per cent
Excess of $500,000	6 per cent

In some respects the results of the law were a disappointment to its proponents. For one thing, Congress did not have the data upon which to base estimates, and, for this reason, if for no other, the rates were more or less experimental. The yield in 1914 was only $28,000,000, although in subsequent years during the existence of this law, the revenue increased In 1916 it was $68,000,000. As many persons predicted, the burden rested heavily upon the industrial sections, notably upon New York, Pennsylvania, Illinois, and Massachusetts The total number of returns was

[18] 220 U S. 107 (1911)

about 336,600, an indication that the tax reached only a small fraction of the population which at that time exceeded 90,000,000, and thus lent color to the contention that the tax was directed not only to certain sections, but to certain classes

Although the United States was not involved as a participant in World War I until 1917, various unfortunate economic effects were experienced almost from its start in 1914 The income from customs declined Meanwhile, it became evident that this country would be involved in the conflict in one way or another, consequently, it became imperative to strengthen the army and navy

Congress envisioned other additional expenditures By the Revenue Act of October 22, 1914, to supply further income, Congress increased the duties on fermented liquors, introduced stamp taxes, and imposed special taxes on bankers and brokers The Revenue Act of September 8, 1916, provided a considerable increase in existing taxes, including the income tax Under the prior law the maximum surtax rate had been 6 per cent It was increased to 13 per cent in 1916 The normal rate on individuals and corporations was increased from 1 to 2 per cent, and the surtax rates were raised in various brackets

With the entrance of the United States into the war in 1917, practically all existing sources of income were subjected to increased levies, and some new ones were added By the Act of October 3, 1917, income tax rates were changed all along the line with the hope that this source would yield annually in excess of $800,000,000 The normal tax was raised from 2 to 4 per cent, exemptions were lowered to $1,000 for unmarried, and to $2,000 for married persons, and the maximum rate in the graduated scale was greatly increased Incomes of $2,000,000 and over were required to pay at the rate of 67 per cent That the weight of this law was spread over a large number of people in indicated by the fact that the number of individual tax returns was 4,425,100 in 1918, and 7,259,900 in 1920. In 1918 the total tax yield was $1,127,722,000 ($476,433,000 from the normal tax and $651,289,000 from surtaxes), and in 1920, $1,075,000,000 ($478,200,000 from normal tax and $596,800,000 from surtaxes)

After the close of World War I, revisions in income tax laws were made in the acts of 1921, 1924, 1926, and 1928, for the purpose of reducing the rates With the coming of a rather long period of good times after 1922, revenue receipts were large and

the government was able to reduce its gross debt from about $25,482,000,000 in 1919 to $16,185,000,000 in 1930. Thus, progressively smaller sums were required for interest and the discharge of the principal. Eventually, because of the repercussions of the depression beginning in 1929, it became necessary to increase taxes, including the income tax As the matter stood in 1939, the income tax was graded into some thirty-nine steps or brackets

Thus, by 1939, the income tax had ceased to be a mere emergency measure, but had become an integral accepted source of revenue both to many states and the federal government. Such characteristics as its constitutionality, progression of rates, exemptions, deductions, bracketing and a better system of administration had been established.

Definition of Income. But the taxation of income still had its problems. One of the most difficult questions in the administration of taxation on incomes was and is the definition of gross and net income The United States Supreme Court has struggled with this problem from the beginning, and, even at present, the matter is not very clear.

Income was first defined by the Supreme Court as the gain derived from capital or labor or both In the famous case of Eisner v Macomber,[19] the Supreme Court said:

> Income may be defined as a gain derived from capital, from labor, or from both combined, provided it be understood to include profit gained through sale or conversion of capital assets

Again the Supreme Court said in the same case:[20]

> Mere enrichment through increase in value of capital investment is not income in any proper meaning of the term.

This definition makes it very clear, since income is "gained through sale or conversion of capital assets," that one of its essential ingredients is consideration in the legal sense of the term Property or money received without consideration or without something of value being given is not income; hence, a pure gift

[19]252 U. S. 189 (1919), See also Stratton's Independence v Howbert, 231 U. S 399 (1913); Van Baumback v Sargent Land Co., 242 U S 503 (1917), Biwabik Mining Co v. U S., 247 U S. 116 (1918); Goldfield Consolidated Mines Co., v Scott, 247 U S. 126 (1918)

[20]*Ibid*, pp 214 and 215

is not taxable as income. Another important characteristic of income is that it must be something of value realized, as in the case of gain derived from property by sale or exchange The mere increase in the value of property due to the change in the purchasing power of the dollar or inflation of general prices is not a taxable income; there must be a transaction by which this increase in value is received. A further requirement of taxable income is that it must be the increment increase as distinguished from the capital from which it is derived. Also only the excess over costs, or net income, is the income upon which the tax may be imposed. This last characteristic of income has been very confusing to the lawmakers and to the courts. Is gross income income for purposes of taxation? In the early income tax laws, especially the Act of 1909, no provisions were made for depletion of capital assets, with the result that taxable income was larger than true income, but this was not especially burdensome because the rates were so low Even in the Act of 1913, the law limited deduction for depletion of capital assets to 5 per cent of the gross income. It was not until much later that the United States Supreme Court realized that depletion and depreciation were elements of cost.[21] In a later series of cases the Supreme Court held that the power of Congress under the Sixteenth Amendment extended to gross income so that deductions could be limited by statute,[22] although a graduated gross receipts tax was held to be unconstitutional[23] on the ground that the classification was arbitrary.

In some instances the United States Supreme Court, in defining income, has adopted a kind of "rule of reason," or what seems to be the ordinarily accepted connotation of the term "income." In this regard, the Supreme Court has spoken as follows.[24]

> In determining the definition of the word "income" thus arrived at, this court has consistently refused to enter into the refinements of lexicographers or economists and has approved, in the definition quoted, what it believed to be the commonly understood meaning of the term which must have been in the minds of those people when they adopted the Sixteenth Amendment to the Constitution.

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[21]Doyle v. Mitchell Bros. Co , 247 U. S 179 (1918), Lynch v Alworth-Stephens Co , 267 U S. 364 (1925), U S v Lindey, 274 U S 295 (1927), Burnet v Logan, 283 U. S. 404 (1931); Helvering v Falk, 291 U S 183 (1934)

[22]Woolford Realty Co v. Rose, 286 U S. 319 (1932), Helvering v Chester N. Weaver Co 59 S Ct. 185 (1938), White et al v U S 59 S. Ct 179 (1938)

[23]Stewart Dry Goods Co v Lewis, 294 U S. 550 (1934)

[24]Merchants Loan and Trust Co v Smietanka, 255 U S 509, 519 (1920).

Later, the definition was broadened to include the profit on the sale of capital assets This involved the taxation of capital gains. A capital gain is usually defined as the increase in the value of capital assets over their cost. There must be a realization of this gain through sale or use before a tax liability will apply

In the taxation of capital gains, two major questions are involved. First, are capital gains income; second, how should this form of income be taxed? That capital gains are income or in the nature of income is the usual interpretation. As to the form of tax to be applied, there are two alternatives. first, a differential levy, such as has been used by the federal government since 1921, and second, the inclusion of net capital gains with other income for taxation at ordinary income tax rates

Whatever the theoretical definition, the laws usually define income for the purposes of the particular statute. The definition has changed from time to time The Revenue Act approved June 22, 1936, contained the following· " 'Net Income' means gross income computed under Section 22, less the deductions allowed by Section 23 " The general definition of "gross income" in Section 22 is as follows " 'Gross income' includes gains, profits, and income derived from salaries, wages, or compensation for personal service, of whatever kind and in whatever form paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever. In the case of Presidents of the United States and of federal judges taking office after June 6, 1932, the compensation received shall be included in their gross income, and all acts fixing the compensation of such President and judges are hereby amended accordingly "

Incidence of the Income Tax Undoubtedly one advantage of the income tax lies in the fact that the authorities can be relatively certain as to the final resting place of the tax Likewise, there is relative certainty that a properly graded tax may reach the varying degrees of ability to pay This certainty does not exist with many other kinds of taxes. No one knows the extent to which the aggregation of indirect levies bear upon ability, although the common impression is that their burden is heavy on persons of

small and relatively small incomes, but progressively lighter as the income increases in magnitude. This is due to the fact that it is often impossible to trace the shifting of the incidence to its final resting place, and in most instances one cannot estimate the total burden on the individual of the aggregate of many indirect taxes which find their way into the commodities he buys.

Whether or not, in all cases, the income tax can be shifted is a debatable question. For the moment, consideration is not to the "pressure" of the tax, but to the incidence in the sense in which this term is commonly employed. The situation is really more complex than it is ordinarily believed

An income tax may be devised to extend down to low incomes, say $500 a year, and to grade the brackets upward from that point In this case all or a part of the tax on the low brackets may be shifted The tax takes from the recipient a portion of his income which otherwise would be spent for the necessities and luxuries of life It deprives him of the opportunity of enjoying as much of these goods as before the tax was imposed He considers the quantity of goods and services which he has previously enjoyed as a part of his established standard of living If he belongs to a labor group which is strongly organized, in all likelihood he and others of the group will use their united strength to obtain a wage which will restore the standard lost by the tax Nowadays, since labor economists watch closely price indexes in their relation to wages, it is not likely that they would overlook a decline of purchasing power due to the tax

The Pressure of the Income Tax. Beyond the incidence of most taxes is a series of effects which were not intended, or even understood by the legislators, at the time the law was enacted Is the incidence of the income tax the "be-all and the end-all" of the tax sequence, or does the levy set into action a trail of events which produce more remote results? To answer this question, it is necessary to ascertain, first, what a government does with the funds thus collected and, second, to what use the funds might have been applied if left in the hands of the recipients of income

Funds taken by governments in the form of taxes are in most cases diverted from the uses of the ordinary run of commerce and industry into other channels This is notably the case with large expenditures for ordinary government, social and economic functions, and for war To a very large extent, government income is

not spent to maintain or improve the productive equipment from which gainful workers obtain their income, or for additions to that part of the social resource which we call liquid capital.

What use might have been made of such funds if left in the hands of the original income earners? The answer depends on the disposition which the individual makes of his income, and upon the size of the income which he receives. Persons in the lower income brackets contribute relatively little to the annual national increment of capital. This point of view has been expressed in the following words: "This vital, reproductive, and fertile capital-saving comes almost wholly from the 3 or 4 per cent of the population which has, or pays income taxes on, incomes of $5,000 a year and over."[25] The study upon which this statement is based seems to bear out the facts Bearing on the same idea is the contention that "this steady gain in product[26] has been closely related to the corresponding and slightly greater gain in the amount of capital invested, and as this invested capital goes almost wholly to the purchase of new machinery, or to plant extension, or to the development of new processes and methods, one may surmise that this rate of progress is possible only through a corresponding (or greater) rate of increase in the capital invested."[27] Thus, if a country is "geared" to a steady rate of expansion, and to full and general employment of persons seeking gainful occupations, there must be "an adequate and steady supply of new capital and the use of this capital for the augmentation of productive capacity "[28]

Of course, the extent of retardation, or repression, of industrial progress depends upon the rates of levy In this country, where productivity is high, it could hardly be contended that rates, such as those in the Tax Law of 1913, or even in that of 1916, were a serious repressant to capital accumulation, or to the expansion of industry and employment But a good case could be made out for the depressing effects on these various factors by the heavy imposts in the Act of 1934 or later

Certainty and Regularity of Revenue from Income Taxes. Since 1920, and especially during the years of World War II and the

[25]Carl Snyder, "The Capital Supply and National Well-being," *The American Economic Review*, XXVI, No 2, p 221

[26]*Ibid*, p 213 This author gives extensive systems of graphs to illustrate the relation of productivity to capital accumulation

[27]*Ibid*

[28]*Ibid*.

subsequent period of readjustment, the personal income tax has been a heavy producer of revenue to the federal government. According to the following table, the ratio of income tax revenues to total revenue receipts of the federal government for 1915 was 9 8 per cent, but it became more than 50 per cent in 1949 The ratio curve is variable but upward, especially during recent years, showing the relative importance which taxes on personal incomes bear to total revenue receipts of the federal government

FEDERAL PERSONAL INCOME TAX REVENUES[29]

1915-1949

YEAR	PERSONAL INCOME TAX REVENUES ($ MILLIONS)	TOTAL REVENUE RECEIPTS ($ MILLIONS)	RATIO OF INCOME TAX REVENUES TO TOTAL REVENUE RECEIPTS (PER CENT)
1915	68	698	9 7
1918	1,218	3,665	30 8
1920	1,075	6,695	16 1
1925	845	3,780	22 3
1930	1,147	4,178	27 4
1935	527	3,800	13 9
1940	982	5,387	18 2
1942	3,263	12,799	25 5
1945	19,034	46,457	40 9
1947	19,343	43,259	44 7
*1948	21,951	45,210	48 5
*1949	22,506	44,477	50 6

*Budgeted for years indicated.

Some authors have spoken of the income tax as the flexible or adjustable element in the tax system of a country By this they have meant that by raising the rates it would be possible to fill in the gaps caused by shortages of revenue from other sources, and that by lowering the rates an excess of receipts over needs could be corrected A case could be made out for this contention if business were always to move on an even keel, and thus incomes from salaries, wages, and profits could always be expected to be a relatively constant sum. As a matter of fact, all incomes, from

[29]See *Statistical Abstract of the United States*, 1941, Table 192, p 178, 1948, Table 345, p 321, 1948, Table 350, p 328, 1948, Table 353, p 331 Federal Budget, 1949, page M-9

whatever source, vary greatly with changes in business conditions. The extent to which a depression may affect such revenue is shown by the fact that the net income of individuals in 1932 was less than half of what it was in 1929, and the drop in corporate incomes was even more precipitous[30] Thus, there is little hope of obtaining relative stability of government revenue merely through adjustments made in the levies upon income taxes, whether individual or corporate

Again referring to the above table, it is easy to see that the volume of receipts from personal income to the federal government have varied widely. This variation may be explained partly by the many changes that have been made from time to time in the rates, exemptions and deductions, and the inclusion of lower income groups, and partly by the wide variation in the national income The taxation of incomes is greatly affected by the stage in the cyclical condition of the country.

Provisions of Current Income Tax Laws. The federal income tax law of 1948 differs in many details from other income tax laws passed since the beginning of World War II Furthermore, it may be changed one or more times by each session of Congress Nevertheless, the general pattern of this law, as described in the following paragraphs, illustrates the provisions of income tax laws of recent years and the probable provisions of future tax laws.

To determine the amount of his tax, the taxpayer first finds the amount of his gross income Gross income includes income from all sources except that which the law specifically exempts Examples of income that need not be included in gross income are

All active service pay of enlisted personnel in the armed services (Officers' pay is partially exempt)
Pensions and disability compensation to war veterans and their families
Federal and state social security benefits
Gifts, inheritances, bequests
Workmen's compensation, insurance, damages, etc, for bodily injury or sickness
Life insurance proceeds paid upon death
Interest on the bonds of states and their political subdivisions and on certain federal bonds issued before March 1, 1941

Special provisions are made for gains and losses from the sale or other conversion of capital assets, and of land, buildings, and

[30] *Statistical Abstract of the United States*, 1935, p 177

any other depreciable property used in the taxpayer's trade or business Gains and losses from the sale or exchange of capital assets are separated into two categories· long-term capital gains and losses (where the property was held more than six months), and short-term gains and losses Only 50 per cent of the long-term capital gain or loss is taxable, whereas 100 per cent is taxable if it is a short-term capital gain

The taxpayer is permitted to make certain deductions from his gross income in determining his adjusted gross income. Examples of these deductions are

Ordinary and necessary expenses directly connected with the taxpayer's business or profession
Expenses connected with any activity of the taxpayer, entered into for gain, even though these activities are not in his regular trade or business

After arriving at his adjusted gross income by subtracting the permitted items from his gross income, the taxpayer may subtract certain personal expenses from the adjusted gross income Examples of deductible personal expenses are

Contributions to religious, charitable, educational, scientific, or literary organizations if they are not organized for profit nor for the purpose of influencing legislation (The deduction is limited to 15 per cent of adjusted gross income)
Interest
Property taxes
State income taxes
State or local retail sales taxes
Auto license fees
Poll taxes
State gasoline taxes in most states
(Federal excise taxes on luxuries, employees federal old-age benefits tax, and federal income taxes may *not* be deducted)
Non-business losses (not covered by insurance) arising from fire, storm, shipwreck, or othe casualty, or from theft
Medical, dental, and hospital expenses in excess of 5 per cent of adjusted gross income.

If the taxpayer does not care to list his personal deductions, he may use as the sum of his personal deductions 10 per cent of the adjusted gross income or $1,000, whichever is the smaller amount It is to the taxpayer's advantage to list his personal deductions separately only when they amount to more than 10 per cent of his

adjusted gross income or to more than $1,000. Adjusted gross income less the personal deductions equals net income.

From his net income, the taxpayer is permitted to subtract an exemption of $600 for himself, and an equal amount for his wife if she does not file a separate return, and for each dependent relative who has a gross income of less than $500 and who has received more than half of his support during the year from the taxpayer. An extra exemption of $600 is given to the taxpayer if he is over 65 years of age, and a further equal exemption is given to him if he is blind. Similar exemptions are granted if the wife of the taxpayer is over 65 years of age or is blind, but additional exemptions of this kind are not granted for dependents

Gross income, deductions, and exemptions may be summarized as follows

Gross income — business deductions	= Adjusted gross income
Adjusted gross income — personal deductions (or an optional standard deduction)	= Net income
Net income — exemption credits	= Amount to which tax rates are applied

Tables may be used in the computation of the tax. In the 1948 law, certain rates are applied and then the amounts are subject to certain deductions The net effect of the rates is a tax of about 17 per cent on the first $2,000 of the amount to which tax rates are applied, increasing steadily to 82 per cent on incomes in excess of $200,000

The Withholding Tax. During World War II, Congress provided for the withholding, "pay-as-you-go," income tax plan which went into effect on January 1, 1943 The purpose of this plan was to provide a method of collecting the income tax at its source by requiring the employer to withhold from wages the proportional amounts at each payday. Under the Revenue Act of 1948 approximately the entire tax liability is withheld on incomes up to $5,000 where the income is solely from wages One of the great advantages of such a plan is that it collects the tax currently on a "pay-as-you-go" basis out of the employee's wages so that the full amount does not fall due at one time at the end of the year As defined by this law, an employee is any individual who performs services and who is subject to control by his employer both as to what and how services shall be performed. The collec-

tion of income tax by withholding does not apply to the business income of persons who are in business for themselves, since they are not "employees" Such persons are required to file a declaration of estimated income for the ensuing year on or before March 15 The tax on this estimated income may be paid in quarterly installments during the year, and a final report with a final payment for the year must be made shortly after the end of the year Also those who receive wages in excess of $5,000 a year or income from other sources in excess of $100 a year must file a declaration of estimated income and must pay the tax that it is estimated will not be withheld from their wages

Certain classes of wage and salary payments are exempt from withholding These consist of remuneration paid

1. Prior to January 1, 1949, for services performed as member of the military or naval forces of the United States;
2. For agricultural labor,
3. For domestic help,
4. For casual labor,
5. For services by a citizen or resident of the United States for a foreign government,
6. For services performed by a non-resident alien,
7. For services performed outside the United States,
8. For services performed within a possession of the United States;
9. For services performed by a minister of the gospel,
10. As fees to a public official

Family Relations and Income Taxation. Many devices have been used by the family to avoid or to mitigate the taxation of incomes, such as intra-family sales, private charitable foundations, private annuities, trusts, joint tenancies, family partnerships and assignment of income-producing property to the wife. Perhaps the latest and most effective methods are the community property legislation by certain states and the provision in the Federal Revenue Act of 1948 for income-splitting between husband and wife.

At common law, upon marriage, the husband acquires a vested interest in the property of his wife On the contrary, the wife fails to acquire a similar interest in her husband's property Property acquired by the husband during marriage is his separate property subject to the wife's right of dower of one-third life

estate at the death of the husband, In general, she cannot be divested of the dower right except by her own voluntary consent

In the case of community property, the general principle underlying such system is that all property acquired during marriage by the industry and labor of either or both spouses, together with the produce and increase, belongs beneficially to both during the continuance of the marriage relation The wife's personalty is not merged in that of her husband but the relationship takes on many aspects of an economic partnership While the community property laws are not uniform among the states which have adopted such systems, in general the wife is vested with an undivided one-half interest in all community property with her husband

Shortly after the enactment of the first income tax law in 1913 under the Sixteenth Amendment taxpayers in community property states claimed that they should be permitted to split their income for taxation purposes In a series of cases the Supreme Court held that community income, although managed and controlled by the husband, is owned half by the wife, that the husband is merely the agent of the community as far as his wife's half interest is concerned [31] Therefore earnings of husband and wife in community property states are shared equally regardless of which spouse actually received the funds. This is significant in federal taxation owing to the sharply progressive rates of personal income taxes Split income or split property enjoys lower rates than combined income or property because each half falls under a surtax rate lower than the rate on the combined income

In order that the taxpayers might have the advantage of tax savings under the Federal Income Tax Laws, many states[32] hastened to provide by statue for community property between husband and wife But in order to make this privilege of tax reduction uniform throughout the United States, Congress provided the income-splitting method for husband and wife to apply to income earned during 1948 and later years The effect is to equalize the tax burden on family income regardless of whether the family resides in a community property state or in a common law state Summarizing the advantages of the income-splitting

[31] Poe v. Seaboon, 282 U S 101 (1930), Goodell v Koch, 282 U S 118 (1930), Hopkins v Bocon, 282 U S 122 (1930); Bender v Pfaff, 282, U. S. 127 (1930)

[32] Arizona, California, Idaho, Nevada, New Mexico, Oklahoma, Texas, Arkansas, Michigan, Nebraska, Oregon, Pennsylvania and Washington.

plan, the Report of the House Ways and Means Committee stated:

> Adoption of these income-splitting provisions will produce substantial geographical equalization in the impact of the tax on individual net incomes The unfortunate and impetuous enactment of community property legislation by States that have long used the common law will be forestalled. The incentive for married couples in common law States to attempt the reduction of their taxes by the division of their income through such devices as trusts, joint tenancies, and family partnerships will be reduced materially. Administrative difficulties stemming from the use of such devices will be diminished, and there will be less need for meticulous legislation on the income tax treatment of trusts and family partnerships

To calculate the tax in case of joint return, the following procedure is prescribed.

1. The net income is reduced by half,
2. The normal and surtaxes are applied to this sum,
3. The amount of the tax is then multiplied by two

The obvious result is that the amount of the tax is greatly reduced when the amount of the income of either the husband or the wife is much greater than that of the other and when the amount is large enough so that the tax rate does not fall in the lowest bracket It should be borne in mind that the income-splitting method as provided under the Federal Revenue Act of 1948 is in no way community property It should also be kept in mind that the income-splitting and community property plans do not render useless or illegal any or all the other devices that have been employed A husband and his wife may still file separate tax returns out of their own independent incomes from wages or property. They may even form partnerships, provided such organizations are genuine in the legal sense of the term.[33] Intra-family sales may still be used where the husband sells part of his investments or business to his wife, but such transfer must be actually made for a bona fide valuable consideration Private charitable organizations, private annuities, trusts and joint tenancies may be used also to reduce the tax burden but sometimes with doubtful practical results

[33] See Commissioner of Internal Revenue v Tower, 66 S Ct. 532 (1946), Lusthaus v Commissioner of Internal Revenue, 66 S Ct 539 (1946) Also see similar holdings in cases on page 456 of this text

Summary. The taxation of incomes has been used by almost all countries in Europe for a long time England early adopted its use, largely as an emergency measure to supplement the levies on property and excises, and sometimes in lieu of the latter When the business entity came into existence, especially the corporation, levies on incomes from these new sources were imposed in addition to those on natural persons

In this country the colonies, and later many states, have used or are using income taxes in some form.

A federal income tax was proposed during the War of 1812, but it never became a law. Congress imposed a tax on incomes in 1861, but after eleven years completely abandoned such form of revenue until 1894, partly because of constitutional reasons, but mostly because other sources more than satisfied the revenue needs At present, income taxes, individual and corporate, now constitute an important source of revenue for both the federal and many state governments

The income tax is seldom attempted by local governments, although a few cities, like Philadelphia, Toledo and St. Louis, have used it It is very difficult for local units to administer, chiefly because income is derived from such widely scattered sources that they are unable to reach it This same difficulty prevails to a considerable extent with the states, unless they secure the aid of the United States Government by allowing them to check against the federal return

Like all other early attempts, the Civil War income tax law was a war emergency measure It came as an alternative to higher excises, tariff duties, and a levy on general property. The Civil War measure went through many changes between its enactment in 1861 and its repeal in 1872 The basic act allowed a personal exemption of $600 and had slightly progressive rate structure up to 5 per cent on incomes exceeding $10,000, later 10 per cent on incomes of $5,000 or more. The measure was enforced with great difficulty which contributed much to its unpopularity Its total yield was a little in excess of $375,000,000, which was no small contribution to the total expense of the war

In 1894 the federal government attempted to restore a tax on incomes. It applied to both individual and corporate incomes, and contained a clause in regard to gifts and inheritances It had a progressive rate structure, with a $4,000 exemption for personal incomes.

The constitutionality of the Act of 1894 was speedily tested in Pollock v. Farmers' Loan and Trust Company The case turned upon the question whether or not the taxation of incomes was direct, and therefore must be apportioned among the states according to population, or indirect, and need only be uniform. The Supreme Court held it to be a direct tax on the income of property and therefore unconstitutional unless apportioned.

The next federal law was in 1909, when a tax was imposed on the income of corporations It was called an excise tax, inasmuch as it was imposed on the right to do business, but measured in terms of the corporate income. The Supreme Court held it constitutional in the famous case of Flint v Stone Tracy Company

In 1913, the Sixteenth Amendment was adopted which gave Congress the right to tax "incomes from whatever source derived " This amendment brought to a close one of the most controversial questions that ever came before the public on matters of taxation Immediately, in 1913, Congress enacted a tax law to apply to all individual incomes, which, with many subsequent amendments, forms the basis of the act today

The federal income tax law now provides for taxing the salaries of government officials, such as the President of the United States and Federal judges who took office after June 6, 1932

The numerous difficulties and problems that entered into the administration of income taxes caused many states to abandon their use. What is income, net as well as gross? Does it include capital gains? How is the government going to be sure that all the taxable income is reported? Is it a source of revenue that may be used by the states and local units?

The incidence of the income tax is not always easily determined In general, a tax on net income is not shifted, at least immediately In the long run, a tax on net income may be shifted by causing a transfer of capital to other less heavily burdened or exempt forms of investment

Several recent changes have been made in the federal income tax, chief of which is the withholding provision This allows collection of income taxes in advance at the source on wages and salaries. Another important change is provision for income-splitting between husband and wife This amounts to a great saving in taxes inasmuch as the amount for taxation purposes is made to fall under lower surtax brackets

TEXT QUESTIONS

1. What was the significance of the British income tax laws of 1798 and 1799?
2. During the War of 1812 what were the principle sources of federal income?
3. When was the first income tax law passed in the United States?
4. Was it held to be constitutional? Under what decision?
5. What was the decision in the Pollock v. Farmers Loan and Trust Co. case?
6. What is apportionment? Uniformity? Why is it said that a tax must be reasonable, not arbitrary nor capricious?
7. What is an excise tax?
8. What new taxing powers were granted by the Sixteenth Amendment?
9. What is a "single" tax?
10. Are state income taxes legal?
11. Differentiate between double and multiple taxation?
12. How effective were the income tax laws of the Civil War?
13. What are "incidence" and "shifting"?
14. What proportion of the population was affected by the tax of 1913?
15. What is "income"? Does it include rent, wages, interest, and profit?
16. What was the effect of the law of October 3, 1917?
17. What is the ratio of income tax revenue to total revenue as of 1949?
18. Under the 1948 law, what types of income were exempt?
19. Define: Short term and long term capital gain or loss.
20. In general, what types of deductions are allowed?
21. Explain the "withholding tax" plan.
22. Define an employee.
23. How may family relations be legally used to reduce taxes?
24. What major changes have been made in the income tax law since 1861?

APPLICATION PROBLEMS

1 Can you give several reasons why the states began to tax personal incomes before the federal government seriously resorted to this source? Also give several reasons why local units, such as cities and counties, seldom consider the taxation of personal incomes?

2 What relation does the yield of taxes on personal income bear to the cyclical changes in the business cycle? To what extent, if any, could the taxation of personal incomes be used with compensatory effect during cyclical changes?

RESEARCH TOPICS

1 Make a study of the taxation of personal incomes in your state, if such levies are imposed Note the total annual income to your state from this source since its adoption, the exemptions and deductions allowed, the rate schedules; the purposes for which this income was spent by the state, and the division, if any, which the state makes among the local units of governments If your state has adopted community property, note its effects on taxation of personal incomes

2 Granted that your state levies on personal incomes, compare the amounts which the federal government and your state receive from this source Presumably each intends to cover the same incomes; therefore, how do you explain the difference in amounts received by each government?

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CHAPTER 23

TAXATION OF BUSINESS ENTERPRISE

(General Principles)

Taxes are assessed directly and indirectly on business in all its forms, and also on the privileges of engaging in various industrial activities. The term "business taxation" is therefore very broad and very general, and may be used to include all levies of whatever nature imposed on the rendering of services, and on the production, buying, and selling of goods and services In many instances, taxes, not so designed, such as property, sales, and severance taxes, really fall on business But, in most cases, these levies may be shifted on to the consumer by one means or another.

For the most part, the term "business taxation" may be regarded as applying to those taxes that are imposed chiefly on the corporate entity, because this form of business organization employs at least 90 per cent of the capital and is responsible for about an equal percentage of all goods and services produced in the United States About the only taxes that the business corporation does not pay are poll and death or inheritance duties In the case of unincorporated business organizations, such as partnerships, joint stock associations, trusts, pools and common law business trusts, the taxes are assessed directly against and in the names of the individual owners; in the case of the corporation, they are levied on the income and property as belonging to and in the name of the corporate entity

The subject of business taxation divides itself rather naturally into two parts. The first part is concerned chiefly with the principles of taxation of business in general, principally of industrial corporations The second part deals with tax levies imposed on specific industrial enterprises, such as public utilities, banks, insurance companies, and chain stores The first group of taxes applies to those businesses, chiefly corporations, which operate in a competitive market; the second group applies to those business undertakings, except the chain stores, which are affected with public interest and are therefore amenable to more or less strict government regulation. These distinctions go a long way in the ormulation of a theory of taxation on business enterprise

This chapter is concerned with the general principles of taxation which falls either on the privilege of doing business or on the presumed capacity of contributing to the support of government The next chapter will consider business taxes which fall especially upon particular types and forms of business enterprises It is not easy to separate and to explain the general principles of taxation that falls on business. It will be necessary to resort to many rather complicated tax details, especially in the case of the ordinary business corporation, to illustrate their concrete application.

Kinds of Business Taxes. Business enterprises of all types pay yearly a multitude of taxes to the federal, state, and local governments The most important of these are property, commodity, excise, service, income, excess profits, and license taxes. The taxes that the federal government levies on business are fairly direct and simple, consisting almost entirely of corporation income taxes, while states and local units assess an endless variety under many different names and with numerous variations in rates and economic effects Taxes on business are levied principally for revenue, although in many instances, as in the case of chain stores, the regulatory purpose is sometimes more important.

It is impossible to estimate the total amount of taxes, both direct and indirect, which these various businesses pay to the different grades of government each year, but if the general proposition is accepted that all public revenue to the government comes from income,[1] then every tax ultimately must be paid out of the profits of industry, although, in many cases, taxes are imposed on property which does not produce any return on the investment The general property tax must be paid on factories, stores, and other buildings, and on raw materials which are either in process of manufacture or in stock for sale State and federal income taxes reach the income from all forms of incorporated and unincorporated enterprises Franchise taxes, excess profits taxes, and sales taxes — although the latter may be ultimately shifted on to the consumer — are all levied on business In its broadest concept, business includes every form of activity that is operated for a profit, it is from this profit or surplus that all public revenue must ultimately be derived for the support of the functions of government

[1]Hobson, John A , *Taxation in the New State* (London Methuen & Co , Ltd , 1919). In this book the author takes this topic as one of his theses and treats it fully

Justification of Business Taxes. Taxes represent one of the costs of business operation; in some manner, sooner or later, they must reappear in prices or rates which the consumer ultimately must pay. Some taxes, such as those on net income, excess profits, surplus, and economic rent, may not be immediately shiftable, and must therefore be paid from business income or capital However, such businesses are sometimes able to make adjustments in their affairs so as to avoid part or all of these levies in the future

If taxes are elements of cost of production, then upon what grounds may government assess such burdens on private industrial enterprises? Why should special taxes be assessed upon business in addition to those imposed upon the individual owners or managers? Several theories have been advanced to justify such impositions

The first theory is that the business unit possesses special ability to pay Business is the real producer of all income As an organized entity, it possesses a special power of creating wealth and income which the individual may not have, the business enterprise is something more than a mere aggregation of individuals and machines and materials This peculiar characteristic of an industrial enterprise furnishes special tax paying ability In the case of the corporation, the law has endowed it with an entity which gives it an existence separate and distinct from the stockholders According to law, and by principles of accounting, certain real and personal property is allocated to the business unit by the investors in the form of fixed and working capital to be employed in production This property is owned and held in the corporation's own right, hence, this business unit is assessable and taxable in its own name Since the business unit, whether incorporated or unincorporated, owns and controls property for its own benefit, buys and sells goods and services, and receives profits, it seems only reasonable that it should be taxed according to its special ability to pay in the same manner as a natural person

A second reason why the business unit should be expected to pay its own separate taxes is because of the special benefits which it receives from government The profitableness of business depends to a large extent upon the stability of government Property must be protected by police and fire departments Courts of justice must be available where contracts may be enforced and damages collected Markets and the channels of

trade and commerce must be kept free and open to all competitors on equal terms through the enforcement of the anti-trust laws Monopoly, unreasonable contracts in restraint of trade, and unfair methods in competition must be regulated or suppressed The exercise of these functions by government entails considerable expense for which business should make some contribution

In many ways, government has become a partner with business; the business man has been endowed with a great public trust. Government provides protection, and business supplies the sources of revenue; the one institution could not hope to survive without the presence of the other. To a great extent, the value of property depends upon the existence of good government. It is often contended that the benefit theory of taxation is meaningless because it does not suggest the kind of taxes which should be levied upon business or offer criteria for measuring the amounts to be collected But such a theory has justified itself if it does nothing more than establish the fact that business should contribute toward the expense of government The benefits that business receives from government justify some sort of contribution, but the amount and the kinds of levies may be left to practical determination by the appropriate lawmaking bodies In general the courts will not interfere with the exercise of such right when the legislative body is clearly within its constitutional authority

The presence of business within a community entails certain expense upon government The businessman, perhaps more than anyone else, uses all the facilities that government offers The corporation must be chartered by some department of the state, its activities in the public interest must be supervised, and in the event it is unsuccessful, its affairs must be settled in a court of bankruptcy, and, perhaps, reorganized or liquidated Business not only makes extensive use of many government agencies, but it is a source of expense to the state, and, therefore, should be expected to make contributions to the general tax fund Taxes levied on business should at all times be reasonable and just; they should have a minimum of undesirable social effects, and should leave the fundamental conditions of competition unaltered. Perhaps, in the last analysis, whatever excuse may be given, business is taxed for practical expediency It is much easier to levy on relatively few producers than on a multitude of consumers, and business seems to contain an almost inexhaustible reservoir from which funds may be taken for public purposes

Business Taxes and Regulation. Taxes on business are sometimes levied for purposes other than or in addition to revenue. Such taxes as sumptuary taxes are frequently imposed for the purpose of regulating or destroying certain practices which are clearly undersirable or anti-social, although the United States Supreme Court has repeatedly held that a tax not levied with the intent of producing at least some revenue is clearly illegal. The excess and undistributed profits taxes were primarily designed to curb exorbitant accumulations of surpluses of corporations, especially during emergencies, and to recapture a part of monopoly profits, while the levies on chain stores are expected to prevent too rapid development of the chains in competion with the independent retailers. The graduated income and inheritance taxes, especially in the upper brackets, tend to restrict great wealth and profit accumulations, while certain levies on great industrial combinations and their syndicates are expected to place a limit on the intricacies of their organization. All these various taxes have also produced considerable revenue to the government

One of the most difficult problems in taxation of business is that of shifting and incidence Except for a tax on some form of pure surplus, all levies on business are immediately shiftable, either back to producers of raw materials and labor, or forward to the consumer In such cases, instead of a tax falling on a business, it is often shifted to others who may be least able to assume it Therefore, no lawmaking body can be certain of the equitableness of its proposed tax legislation until it knows the route and extent of the shifting and incidence.

The usual method of taxing a merchant's stock in trade is to take an annual inventory of his goods at their fair market value at a particular date This method of levy frequently brings to light glaring inequalities among merchants because of variation in valuation and completeness of return. In the same community, one merchant may be assessed on the full valuation of his stock, while another may escape with but a fractional part of its market worth Furthermore, merchants in competing territories are subjected to such varying tax rates as seriously to affect equality of competition. Under such circumstances, the recourse of the injured merchant may be very difficult and uncertain, whether in the courts or before a tax commission

A distinction for purposes of taxation is sometimes drawn between incorporated and unincorporated business units. The corporate entity may have some advantages over the partnership or joint-stock company, both in production and capital raising, and, therefore, may possess some peculiar ability to pay taxes, but the difference is not so great as is sometimes presumed Both types of business organization owe an obligation to government from which they derive special protection and support; each should contribute to the public expense according to its ability to pay.

Taxation of the Franchise. Distinctions and perhaps discriminations between incorporated and unincorporated business units seem to arise sometimes from a misunderstanding of the term "franchise" "Franchise" may be defined as a constitutional or statutory right or privilege which has been conferred upon a corporate entity In some cases, it has been defined as the corporate excess, which is usually taken to be the difference between the value of a corporation as derived from the capitalization of its earning power at some current rate and the total par value of all its outstanding stock

For taxation purposes, this corporate franchise is presumed to be a valuable intangible property right, which possesses ability to pay and therefore is rightfully taxable Almost all the states in the Union now impose franchise taxes on their corporations, this should be regarded more in the nature of a fee for granting the charter and for supervision of corporate activities than as a tax in the strictest sense of the term The franchise tax is a charge upon a corporation for the right to act as an entity separate and distinct from its stockholders, to continue in business as such a body, to engage in certain activities which are barred to other types of industrial enterprises, to carry on activities in a particular way, or to receive special privileges, such as limited liability, the right to sue or be sued, to the adoption and use of a seal, and the right of succession and autonomy

The corporate franchise is an intangible property right, nevertheless, states tax it indirectly as such, by imposing a burden on physical property and on gross receipts, or on net income, sometimes under the pretense of regulation In so far as taxation by the states of corporations engaged in interstate commerce is concerned, the general use of the franchise tax in the future may

have to come to an end The United States Supreme Court has spoken in no uncertain terms in regard to this matter in numerous cases, especially in New Jersey Bell Telephone Company v. State Board of Assessors of New Jersey.[2]

In 1900, New Jersey first imposed a very moderate franchise tax on gross receipts The rate was later gradually increased from 2 per cent until it reached a maximum of 5 per cent in 1920 The Telephone Company contested the tax, in so far as it involved interstate commerce, on the ground that it was a license tax, and, as such, could not be imposed by the state upon receipts which had been derived from interstate commerce Both the lower and state supreme courts of New Jersey upheld the tax, saying that it was "merely the measure of the value of the franchise " The case was appealed to the United States Supreme Court

On January 6, 1930, the United States Supreme Court rendered its decision and repeated the often stated rule that a state cannot constitutionally tax gross earnings which have been derived from interstate commerce nor impose a license fee or other burden upon the privilege of engaging in trade between the states or with foreign countries without violating the commerce clause of the Constitution of the United States The Supreme Court further said that it could not sustain the tax "if it was not one on property, but was in fact upon the gross receipts from interstate commerce or a license computed thereon " The court decided that, in so far as gross receipts were concerned, the tax was "at least void '

Special Business Taxes. In one form or another, taxes were imposed upon business a long time before the modern corporation came into existence. The corporation form of business organization, with its problems of taxation, is comparatively new in the field of industrial enterprise Until about 1850, the corporate entity was brought into existence in this country chiefly by special acts of the state legislatures, and, in a few instances, by the United States Government. But, in 1811, the state of New York took the lead by enacting a general incorporation statute which permitted the formation of certain types of business corporations at any time by groups of natural persons so long as the law was strictly followed All the states of the Union have since followed this example with general incorporation laws

[2] 50 S Ct 111 (1929)

At times the corporation has been regarded with special favor because of the many advantages which have been conferred upon it It has been granted long-term and perpetual franchises, gifts of land and other valuable property It has also been a frequent beneficiary of protective tariffs and subsidies, and it has often enjoyed partial or complete exemption from taxation. Cities have often granted tax exemption for a period of years on property of new manufacturing concerns — the purpose being to lure such organizations from other communities. However, such motive is usually selfish in that by inducing corporations to move within its jurisdiction the municipal government creates assessable property against which, in the course of time, levies may be made as sources of income Today half a million corporations in the United States pay taxes of almost every conceivable kind into the public treasury for the support of practically every function of the federal, state, and local governments.

Concentration of Capital and Taxation. During the last few years, the general attitude of the public toward industrial and utility corporations has undergone many changes, with the result that they have accordingly not been granted so many favors. It was realized that corporations were operated primarily for profit, and, therefore, it would be desirable to subject them to some public supervision and regulation Corporations are now generally regarded as able to pay, and numerous taxes are imposed upon them, with the state of New York probably leading in number of levies.

The rapid growth of industrial combinations and big business also led to many changes in tax policy and administration. As the business corporation became interstate, local tax officials were no longer able to assess and evaluate the properties for purposes of taxation. It therefore became necessary for the state, or even the co-operation of a group of states, to assume this important function. Local tax assessors found themselves helpless when it became necessary to assess and to levy upon a few miles of a railroad or of a gas or telephone line which might extend across a half dozen or more states. Banks, insurance companies, public utilities, as well as the giant industrial combinations, presented the same technical difficulties of tax administration At present, most states have highly organized central tax departments which not only supervise all assessments and levies within their respec-

tive jurisdictions, but take full charge of valuations and tax collections from all interstate utilities that lie across their borders The revenue is then allocated among the cooperating states and finally among their local units in which the utilities operate.

The first attempts of state and local governments to tax corporations within their jurisdiction included merely the real and personal property which belonged to these entities. Since, by definition, the corporation has been regarded as a separate legal entity, it was generally believed that it was subject to the same tax levies as a natural person, and, therefore, no differentiation was made in regard to levy and assessment of its taxable property and income. The officials of some corporations contended that, since their organizations were not natural persons, as defined by the Constitution, such entities were not subject to the same taxes as those levied on individuals. But the courts have disregarded this contention and held that all corporate entities, even though artificial in nature, were subject to the same taxes as natural persons upon their property and income

Corporations may therefore be taxed on their gross or net incomes The chief distinction between these two types of taxes is that the former allows no deductions for expenses of operating the business The levy is imposed on the total or gross value of goods and services sold Of the two taxes, the gross levy is the simpler, because the expense of operation need not be determined. Both gross and net income taxes are usually easily shifted in one way or another; hence, the burdens ultimately fall on the consumer.

A few states, particularly in the South, impose a conglomeration of taxes on business under the general heading of occupational taxes These taxes are particularly significant because of the unsystematic and arbitrary manner in which they are levied. They may be imposed on different bases for almost any purpose and under any form of rate schedule. Some levies include taxes on airplanes for hire, bankrupt sales, coffin manufacturers, advertising agencies, fees and licenses, property, sales, severances, personalty, motor vehicles, and a heterogeneity of taxes on all forms of business Revenue is the obvious purpose of such occupational taxes. These taxes are chosen primarily because of the ease of levy and collection, and because they furnish a lucrative source of income. Such questions as equity of the tax burden are often not seriously considered by the legislatures in imposing such taxes

Early Taxation of Corporation Income. The federal government first levied an income tax in 1861 to apply only to natural persons. In 1894, due to a shrinkage of revenue as the result of panic and depression, Congress laid a tax of 2 per cent on both individual and business or corporate incomes This particular income tax bill was passed as a rider on the Tariff Law of 1894 The Income Tax Law of 1894 on individual income was declared unconstitutional; however, the Supreme Court left the way open for the taxation of corporation income if levied as an excise.[3] As part of the revenue act for financing the war with Spain a semi-income tax was imposed on corporations in 1898 by the federal government. This tax was upon the franchise of corporations and was assessed upon the gross earnings. The law was sustained by the United States Supreme Court as an excise measure [4]

With the turn of the century, government expenditures began to mount. In 1909, to augment federal revenue, a new income tax law was passed, this time applicable to corporations only. In order to make the law constitutional, Congress enacted it as a special *excise* tax, and fixed the rate of 1 per cent on the annual net income in excess of $5000 of all corporations, including joint-stock companies, associations, and insurance companies. It was a tax on net income which was to be determined by subtracting from gross income all operating expenses, interest on debt, and business losses Foreign corporations were to be taxed on all income received from capital invested and business transacted within the United States. This new corporation tax was generally regarded by big business as unjust and discriminatory. In 1911, a test case to determine its constitutionality was brought in which the United States Supreme Court held that the impost of 1909 was an indirect tax and therefore valid [5] This case paved the way for future tax legislation on corporate and other business incomes

The adoption of the Sixteenth Amendment in 1913 gave Congress the power to tax all incomes from whatever source derived without regard to apportionment But this constitutional amendment was in fact not necessary in so far as the taxation of corporation income was concerned because the United States Supreme Court had already held that Congress could tax corporation incomes as excises But a new era in general income taxation

[3]Pollock v Farmers' Loan and Trust Co , 158 U S 601 (1895)
[4]Spreckels Sugar Refining Co v. McClain, 192 U S 397 (1900)
[5]Flint v Stone Tracy Co , 220 U. S 107 (1911)

was dawning, and this additional safety measure in the Constitution was felt necessary.

The income tax revisions of 1913 on corporations and individuals were very opportune because of World War I which was then just on the verge of beginning The old rate of 1 per cent on corporate income in 1909 was continued as part of the new tax law in 1913. But it soon underwent a series of rapid changes and advancements In 1916, the rate on net corporate income was fixed at 13.5 per cent In 1918, it dropped to 12 per cent, but it was again increased to 13.75 per cent in 1934. In 1935, the traditional flat rate was abandoned in favor of progression on corporate income in order to increase the burden on the big corporation In 1936, the tax rate was 8 per cent on net income over $2000, 11 per cent on income over $2000, and not over $15,000, 13 per cent on income over $15,000, and not over $40,000, and 15 per cent on any part in excess of $40,000.

Thus, by the end of World War I, the taxation of corporations and other forms of business enterprise had become an integrated part of the tax system Certain exemptions and deductions were allowed, and the rates were increased and made progressive.

The Federal Corporation Tax Act of 1931. The Federal Corporation Income Tax Law of 1931 was very detailed and complicated, only its principal features will be considered

The act was unusual in that it provided for a classification of corporations into large and small groups by considering those with total receipts not in excess of $250,000 with a net income of not more than $25,000, and those that exceeded these respective amounts On all corporations of the first group with net incomes of not more than $25,000, the rates were made moderately progressive, reaching a maximum of 16 per cent on incomes in excess of $20,000 and not more than $25,000

For the so-called large corporation, having a net income of more than $25,000, the 1931 law provided a more progressive rate schedule First, a tentative tax equal to 19 per cent of the adjusted net income was computed This tentative tax was then reduced by the sum of (a) 16½ per cent of the credit for dividends which had been received, and (b) 2½ per cent of the dividends paid, but not to exceed 2½ per cent of the adjusted net income For corporations with net incomes slightly more than $25,000, certain alternative tax schedules were provided

The above rates for both large and small corporations were only moderately progressive. According to the prevailing view among authorities, the rate of tax on all forms of business income should be proportional and not levied according to some form of progression. Good reasons may be advanced on both sides As a legal entity, the corporation enjoyed special privileges under the law of the state. It possessed in its own right certain valuable property which it put to productive uses and upon which it earned an income. Instead of assessing a flat rate uniformly upon the net earnings of all corporations, whether they be large or small, it seemed to do a greater justice if the larger incomes, especially in the upper brackets, were taxed more heavily On the other hand, in one way in particular, corporations can hardly be treated on the same basis as natural persons because each dollar earned by a corporation should be evaluated in terms of invested capital, whereas a natural person measures each successive increment of net wealth in terms of diminishing utility In other words, the progressive tax on net incomes does not seem to have the same effect on corporations as it does on the individual; this is the gravamen of the issue in the argument, however farfetched it may seem to be

Certain classes of non-profit corporations are not taxed on their income Labor, agricultural, and horticultural organizations are exempt. Mutual, fraternal, and civic league associations pay no tax if their profits are retained within the organization Religious, charitable, scientific, literary, and educational institutions are exempt from all taxation if they are operated on a non-profit basis or do not declare dividends to private parties.

In 1947, corporation income, including that of insurance companies, foreign corporations and regulated investment companies were taxed at the following rates.

If normal-tax net income was.	The normal tax was
Not over $5,000	15% of the normal-tax net income
Over $5,000 but not over $20,000	$750 plus 17% of excess over $5,000
Over $20,000 but not over $25,000	$3,300 plus 19% excess over $20,000
Over $25,000 but not over $50,000	$4,250 plus 31% excess over $25,000

If the normal-tax net income was more than $50,000 the normal tax was 24 per cent of the normal-tax net income.

The surtax on corporations applied to net income minus 85 per cent of amount received as dividends from domestic corporations was as follows:

If surtax net income was:	The surtax was:
Not over $25,000	6% of the surtax net income
Over $25,000 but not over $50,000	$1,500 plus 22% of the excess over $25,000

If the surtax net income was more than $50,000, the surtax was 14% of the entire amount of such surtax net income

The Undistributed Profits Tax. A criticism that is frequently made against the taxation of corporation income is that it is discriminatory in favor of the unincorporated business organization. Why, it may be asked, should the corporate entity as such be subjected to a net income tax when the partnership and joint-stock company forms of business organizations are allowed to escape? Why is it not double taxation to subject the corporate entity to an income tax, and also require the stockholders to pay an individual income tax again when this surplus has been distributed to them in dividends?

At least one answer seems clear. The corporation, unlike partnerships and joint-stock companies because of its separate legal entity from the stockholders, may retain its earnings as surplus, thereby deferring indefinitely the assessment of a personal income tax, whereas all returns earned by unincorporated bodies must be reported annually by the individual proprietors.

During the depression years following 1929, many corporations did accumulate very large surpluses which they retained in their surplus accounts, and to force them to put this money into circulation by declaring dividends, or otherwise, the Revenue Act of 1936 imposed a tax on all undistributed corporate profits[6] In 1936 the surtax on undistributed profits imposed rates which were graduated according to the ratio of undistributed profits to adjusted net income. The law defined adjusted net income as net income minus certain items:

(1) The normal tax on corporate net income

(2) The credit for interest on certain obligations of the federal government and its instrumentalities

(3) The credit allowed to holding company officials under the Banking Act of 1933

[6]See Alfred G. Buehler, *The Undistributed Profits Tax* (New York McGraw-Hill Book Co , Inc , 1937)

(4) The credit allowed to national mortgage associations under the National Housing Act

The undistributed net income was computed by subtracting from the adjusted net income the value of the dividends paid out by corporations in cash or otherwise and the credit allowed in these cases where contracts restricted the payment of dividends. After the adjusted net income and the undistributed profits had been determined, a surtax was imposed upon undistributed profits according to the following rates:

7 per cent of the undistributed net income which was not in excess of 10 per cent of the adjusted net income

12 per cent of the undistributed net income which was over 10 per cent but not over 20 per cent of the adjusted net income

17 per cent of the undistributed net income which was over 20 per cent but not over 40 per cent of the adjusted net income

22 per cent of the undistributed net income which was over 40 per cent but not over 60 per cent of the adjusted net income

27 per cent of the undistributed net income which was in excess of 60 per cent of the adjusted net income

The undistributed profits tax was repealed and went out of effect on January 1, 1940 During the taxable year of 1939, no corporation actually was required to pay a tax on its undistributed profits; but, instead, it received a credit in the amount of 2½ per cent on dividend payments toward its income tax During the operation of the tax many corporations declared heavy dividends to avoid its impact. It furnishes another example of the use of the tax power by the federal government as a means of economic control.

The Capital Stock Tax. Many different kinds of taxes have been levied by the states on the capital stock of corporations This is an attempt to place a tax on the special proprietary interests or ownership of the enterprise, as distinguished from that of the equitable rights of creditors The first such capital stock tax law seems to have been enacted by Pennsylvania in 1831 It was not long thereafter until most states had followed this example. At first, only the capital stock of domestic corporations was taxed, but soon the foreign corporations doing business within the states were also included In order that a foreign corporation may have certain privileges under the laws of a state it must either take out a charter or receive a license to do business It

is by this means that its capital stock is taxable by the state of its domicile, but, as a general rule, foreign corporations may be taxed only on their capital issues in proportion to the total amount of business done within the state to avoid constitutional complications under the commerce clause of the federal Constitution.

It is sometimes difficult to distinguish the capital stock tax from certain other types of levies, such as franchise taxes, especially when they are imposed on corporations upon the same base. Since the courts have held that all kinds of proprietary issues are personal property, in many respects the capital stock tax also very closely resembles the property tax, because, in reality, it is a levy on personalty.

The methods of levying capital stock taxes have been very numerous and often capricious and arbitrary. In the case of the federal capital tax law, the corporation management was allowed to declare a value of its capital stock which might be more or less arbitrary In some states, the market value of the stocks, or the par value of outstanding securities, might be taken as the base for levy of the capital stock tax Even the number of shares, as might be necessary in the case of non-par stocks, might be used. While the tax is generally known as a capital stock tax, other forms of corporate securities, such as bonds, are sometimes included But since the capital stock tax is essentially a levy on the proprietary or capital issues of a corporation, the number of shares of stock, or perhaps bonds, that are outstanding, or their face value, offers about as good basis as any for levying this tax

The capital stock tax was largely used as a war or other emergency measure It was used by the federal government during World War I, and, again, it was levied during the depression years just after 1929 Congress provided for a capital stock tax on corporations again in 1933. As a basis for taxation, the capital stock of the corporation must have a decided or fixed value Under the Act of 1916, the valuation of the capital stock was an administrative problem, but under the law of 1933 the corporation management was required to declare the value of its own stock, which might be a more or less arbitrary figure There was no definite set of rules in the law to govern the method for arriving at this declared value, except that once an estimate had been fixed, it remained at that figure, and was subject to change only as business conditions warranted in the future The rate was $1 for each full $1000 of declared capital stock value.

The Excess Profits Tax — Its Early Use. The excess profits tax on corporations has been used both by the states and by the federal government largely as a war or other emergency measure This type of tax was first adopted by the State of Georgia during the Civil War At one time, Michigan attempted to classify railroads for taxation purposes according to net earnings per mile of line In 1911 Wisconsin varied its income tax according to the relationship between income and assessed value of employed property.

The first federal act covering excess profits was passed in 1916 as a war measure. It was an excise tax levied on the manufacture and sale of munitions for the purpose of recapturing part of the excess war profits This excess war profits tax was based upon the excess of earnings which the taxpayer received over the average for the years of 1911, 1912 and 1913 Individuals, partnerships, corporations and associations were subject to the tax. The rate of the tax was a flat 12½ per cent of net income. The net income was the gross income less cost of materials, running expenses, interest paid, taxes, loss not covered by insurance, and amortization of buildings and equipment.

In 1917, two federal excess profits taxes were passed. The act of March of that year was passed to allay the clamor of discrimination which was claimed by the manufacturers of munitions Partnerships and corporations, including incomes earned by foreign concerns, were subject to the tax levied on incomes over $5,000, plus 8 per cent of invested capital

The War Excess Profits Tax of October 1917 was passed to take the place of the preceding tax which proved unsuccessful Corporations, associations, partnerships and individuals were subject to the tax. The tax base was net income over exemption. Corporations were allowed $3,000 exemption, and partnerships and individuals, $6,000 Each had its specific exemption, plus the same percentage of invested capital as employed during the base period of 1911-1913 Invested capital was defined as the sum of cash or other property paid into the company, surplus paid in, earned surplus; and undivided profits The tax rate was graduated on net income brackets as follows:

PER CENT OF INVESTED CAPITAL	TAX RATE PER CENT
Up to 15	20
15 to 20	25
20 to 25	35
25 to 33	45
Over 33	60

If the company was not in business during the base period of 1911-1913 the flat exemption plus 8 per cent of invested capital was allowed. In the case where invested capital was nominal the company was allowed 8 per cent over the exemption

In 1918 the federal government again levied an excess profits tax which was based on earnings in excess of a normal rate of 8 per cent on invested capital. This excess profits tax was graduated. In 1918 a rate of 30 per cent was levied on all excess profits that ranged between 8 and 20 per cent, and 65 per cent on any amount in excess of 20 per cent Both the war profits and excess profits taxes were alternative, and not supplementary The federal government had the right to tax either one whichever was the higher In 1921, because of great administrative difficulties, the gross inequities in tax burdens, and the opposition of businessmen, both the war and excess profits taxes were repealed.

This excess profits tax did not find favor among government officials At least three secretaries of the Treasury, representing both the Republican and Democratic parties, condemned it and recommended that it be repealed. They complained that the efforts to avoid the tax encouraged overcapitalization, and that it penalized initiative and enterprise, was unequal and injurious in its burden on industry, and was impracticable of administration Other countries had the same experience as the United States Government. They found the excess profits tax useful as an emergency source of income during a war, but it was not a type of levy that any government would want to adopt permanently.

Congress revived the excess profits tax in 1933 as a depression emergency measure when it passed the National Industrial Recovery Act. The tax rate was fixed at 5 per cent of the amount of the net income in excess of 12½ per cent of the adjusted declared value of the capital stock Excess profits were to be measured on the basis of the adjusted declared value of the capital stock rather than on the value of the invested capital. The Act of 1935 increased the rates to 6 per cent of the net income in excess of 10 per cent, but not in excess of 15 per cent, of the capital stock value, and 12 per cent of the amount in excess of 15 per cent of the capital stock value. These same rates were retained in effect in the 1938 act. The declared value of its stock was a figure set by the corporation itself and was used as a basis for the determination of both the excess profits and stock taxes If the declared value was set very low, then a large excess profit would be shown, whereas

if it was very high, then a heavy capital stock tax would be levied It was an attempt of the law to close escape from taxation through either avenue

Excess Profits Tax — 1945. This corporation excess profits tax was imposed upon as much of the taxable income of the entity as was in excess of certain credits intended to represent either a reasonable return on invested capital, or on the average normal income of a pre-war base period, plus a specific exemption of $10,000 ($25,000 after July 1, 1945). On the balance of the taxable income not subject to the excess profits tax the normal tax and surtaxes were imposed

On taxable income subject to the excess profits tax the rate of tax was 95 per cent, with a post-war refund of 10 per cent of the tax; thus the net excess profits tax rate was 85.5 per cent If that portion of the taxable income which was not subject to excess profits tax was $50,000 or more, the normal tax was 24 per cent, and the surtax was 16 per cent, a total of 40 per cent If the amount not subject to the excess profits tax was less than $50,000, the normal tax and surtax rates were as shown in the following table.

NORMAL TAX AND SURTAX RATES[k]

NORMAL TAX NET INCOME	BRACKET RATE (PER CENT)	SURTAX NET INCOME	BRACKET RATE (PER CENT)
$0 to $ 5,000	15		
$5,000 to $20,000	17	$0 to $25,000	10
$20,000 to $25,000	19	$25,000 to $50,000	22
$25,000 to $50,000	31		

[k]Source, *Excess Profits Tax Regulations 112*, U S Treasury Department, Government Printing Office, Washington, D C , 1944, p 65

The excess profits tax was levied on "adjusted excess profits net income," which was excess profits net income less specific exemptions of $10,000 ($25,000 after July 1, 1945) and the excess profits credit This excess profits credit was the larger amount computed under two methods: (1) on the basis of average annual income of the base period of 1936 to 1939, with certain exceptions and adjustments; and (2) on the basis of invested capital

Under the invested capital method, the excess profits credit was computed as a percentage of the amount of the invested capital for the taxable year. The percentages which applied are shown in the following table:

EXCESS PROFITS CREDIT PERCENTAGES*

INVESTED CAPITAL	PER CENT CREDIT IN BRACKET
$0 to $ 5,000,000	8
$5,000,000 to $10,000,000	6
Over $10,000,000	5

*Source *Excess Profits Tax Regulations 112*, U S Treasury Department, Government Printing Office, Washington, D C, 1944, p 65

Several types of corporations, chiefly those operated for public or mutual benefit and not for profit, were exempt from income, excess profits, and capital stock taxes Also exempt from excess profits taxes were personal holding companies, regulated investment companies, foreign corporations not engaged in business in the United States, domestic corporations which derived the major part of their income from sources outside the United States, and corporations subject to the Civil Aeronautics Act of 1938

Use and Abuse. The excess profits tax possessed some very distinct advantages and disadvantages. It was advocated by some economists as a means of reaching the high return which was enjoyed by monopolists and by corporations having a particularly low cost of operation It was contended that, to a very large extent, society as a whole was responsible for high profits, and, as a partner in all forms of business, the community should participate in these exorbitant returns by taxing this excess

In the actual administrative operation of the excess profits tax, two very difficult problems arise First, what are excess profits? Second, how may the value of corporation investments be determined as a basis for ascertaining these excess profits? In the computation of excess profits, normal profits must first be determined. But it has been found that what is a reasonable or normal rate of profit in one industry may be subnormal or abnormal in another This condition also varies from time to time in the same industry or business enterprise. Even if an arbitrary normal rate of return

on a corporate investment is fixed, it must be recognized that it can only be a hypothetical figure Some industries make a high rate of return one year and little or nothing the next year, because of conditions in the market. An excess profits tax on such a corporation would be particularly onerous It has been shown that the profits of small corporations vary more than the large ones If this is true, then the excess profits tax will rest especially heavily on the small corporation It is, therefore, very difficult to set what may be regarded as a normal rate of return.

The second weakness of the excess profits tax is the inability to determine with a fair degree of accuracy the value of corporate stocks so that the rate of return on the investment may be computed The federal tax department of the United States Treasury is not prepared to make such evaluation, with the result that the corporation is permitted to declare the value of its stock without being subjected to an audit Public officials have stated on several occasions that the chief administrative problem of the excess profits tax was the inability to secure an honest valuation of corporation investment as a basis upon which such levy could be made

Because of these very great difficulties, it may be wise to abandon entirely the use of both the capital stock and excess profits taxes, at least until administrative machinery has been devised for meeting such problems There may be good reasons for imposing excess profits taxes during a boom in order that it may serve as a check on inflation As a revenue producer, the excess profits tax rates rather low At no time has it produced more than about $25,000,000 of federal revenue.

In passing, it may be stated that the corporation excess profits taxes seem to conform to ability to pay better than any other kind of levy on business It is not imposed until after all expenses have been deducted, and after a reasonable rate of return has been allowed on the investment. It is obviously an attempt to recapture a part of pure monopoly profit. The excess profits tax should be classed as a "painless" tax because it cannot be shifted, at least immediately, and it does not interfere with replacement and increase of capital It may, like the undistributed profits taxes, tend to drive large corporate reserves into the hands of the investors instead of allowing them to accumulate in the tills of the corporation

Under the provisions of the Internal Revenue Code, effective January 1, 1945, the capital stock tax and the related declared value excess profits tax had the effect of a variable additional tax on income. The capital stock tax was at the rate of $1 25 per thousand on the amount declared by the corporation as the value of the corporation's capital stock.

The surtax on accumulation of surplus was a penalty tax imposed on corporations that retained earnings and profits in excess of the reasonable needs of the business, thus permitting their stockholders to avoid the individual income taxes which would be payable if dividends were declared On not more than $100,000 of excess undistributed income the rate was 27½ per cent, and on undistributed amounts in excess of $100,000 the rate is 38½ per cent.

While the excess profits tax is not presently part of the federal category of taxes its re-enactment is widely discussed A new excess profits measure would undoubtedly be passed if the country were to plunge into a war or other emergency

Summary. The taxation of business is being used extensively by the federal, state, and local governments, not only as a source of revenue, but also for regulatory purposes Since the corporation employs about 90 per cent of the capital, and is responsible for the production of an equal proportion of goods and services, the levy upon this form of business organization becomes most important.

Many deny that business in general, and corporations in particular, should be taxed But business organizations especially when endowed with an entity of existence separate and distinct from the stockholders, possess special ability to pay which may not be enjoyed to the same extent by natural persons

Business is any activity which is done with the intention of making a profit. It is out of this profit that the functions of governmant are financed Since business possesses this special ability to pay, and also enjoys many advantages from government, it becomes easy to justify tax levies upon commercial activities and organizations

Many associations, such as eleemosynary, educational, and other non-profit organizations, should be tax exempt, both as to their capital investment and earnings To tax them would seriously handicap their activities; they do not create a surplus out

of which they could contribute. This same rule holds true for property used by the state for governmental purposes.

The property and income of the single entrepreneur and the partnership are taxed under the name of the individual owner or owners. In a few states, like New York, property and income of such stock issuing associations as the common law business trust and joint-stock company are assessed under the name of the company. Property and income of corporations and combinations of corporations are assessed under the name of the entity to which they belong.

The corporate entity, unless exempt by law, may be taxed on its realty, personalty, franchise, gross and net income and capital stock, and excess or undistributed profits. In 1936, the federal government levied a tax upon undistributed profits for the purpose of inducing corporations to pay out their surpluses as dividends instead of hoarding them. It was felt that the country needed the purchasing power during the depression to stimulate economic activity. That tax was repealed in 1940.

The question of interstate commerce affects the power of the states to tax certain aspects of the corporation. The United States Supreme Court has held that a state cannot levy upon a corporation in such manner as to interfere with commerce among the states and with foreign nations; to do so would be to trespass upon the power reserved to Congress by the Constitution of the United States In general, a state or its subordinate political division cannot levy upon gross income derived in interstate commerce

TEXT QUESTIONS

1 What are the two parts of the subject of business taxation?
2 Why should a business unit be expected to pay its own separate taxes?
3. Explain the statement, "In many ways government has become a partner with business"
4. For what purposes may taxes be levied?
5. What is a franchise? A franchise tax?
6. What effect did the New Jersey Bell Telephone Company Case have on state taxation?
7. How do you distinguish between a tax on gross income and one on net income?
8 Discuss fully the early income taxes of the federal government
9. How did Pollack v Farmers' Loan and Trust Company affect federal income taxes?
10. Why was the income tax of 1909 enacted as an excise tax?

11. What power did the 16th Amendment give to Congress?
12. In what way was the Federal Corporation Act of 1931 unusual?
13. What types of organizations are not taxed on their income?
14. If the normal-tax net income of a company was $22,250 in 1947, what was its normal tax?
15. Why should the corporate entity as such be subjected to a net income tax when the partnerships and joint stock companies are allowed to escape?
16. What was the purpose behind the Revenue Act of 1936?
17. What is a capital stock tax? In what way is it said to be arbitrary?
18. Discuss fully the early uses of the excess profits tax.
19. What types of business organization were subject to the War Excess Profits Tax of October 1917?
20. How was excess income figured for the 1945 excess profits tax?
21. What are the advantages of an excess profits tax?
22. Discuss the two problems involved with the administrative operations of the excess profits tax.
23. Why is it said that the excess profits tax seems to conform to ability to pay better than any other kind of levy on business?
24. How does interstate commerce affect the power of the state to tax certain aspects of the corporation?

APPLICATION PROBLEMS

1. Corporate profits are taxed by the federal government both against the entity of the corporation and also against the individual on his personal income tax when he receives them as dividends Can you make out a case that such levy is *not* double taxation? Perhaps such tax is not what at first thought it seems to be
2. The American Municipal Association has this to say about State-Local Fiscal Relations "Some taxes which municipalities can appropriately use are best collected by the state In such cases consideration should be given to state collection and local sharing of the tax State aid should have a three-fold objective; to stabilize local revenues, to provide a return to municipalities of money which the state can collect more advantageously than the cities, and to maintain reasonable minimum standards of service for local activities in which the state has appropriate interest but which cannot be financed from local funds. State fiscal aid, however, should avoid distortion of local services, should encourage local initiative and permit expenditures above the minimum, should not be used to perpetuate uneconomic local practices, and should not impoverish some areas at the expense of others. Federal and state taxation must not become so burdensome that local governments do not have enough resources to perform local functions" Comment on the fiscal soundness of this statement

RESEARCH TOPICS

1. Select a large business in your immediate community, preferably a large manufacturing concern, and make a study of each and every type of tax levy to which it is subjected by the federal, state and local governments. In your study, note especially the per cent of tax paid to gross and net income of the business, the degree to which the business is probably able to shift the burden on to its customers, and any evidence of double taxation.
2. Consult your local chamber of commerce, other businessmen's associations, and the real estate exchange, and inquire into capital migration out of your ommunity or state because of the tax levy policy. To what extent have business concerns moved into your community because of preferential or favorable tax levies, such as partial or total exemption from taxation? Can you justify such fiscal policy, even taking it on a long-run basis?

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CHAPTER 24

TAXATION OF BUSINESS ENTERPRISE

(Particular Cases)

The taxation by the federal, state, and local governments of those business enterprises, such as public utilities, banks and insurance companies, which are affected with public interest, presents such peculiar and special problems as to require their separate consideration The taxation of chain stores is also considered with this group because these nation-wide organizations have been subjected to such a great amount of public regulation, both by the federal and state government, largely through the power to tax, as to justify their separate consideration, even though they are purely private corporations

Such business associations as public utilities, banks, and insurance companies have been called quasi-public corporations because they render service to the public which otherwise might have to be undertaken in some form by the state Banks and insurance companies are regulated to some extent, and public utilities are regulated by government as to investments, expenditures, rates, and volume of earnings It is for these reasons a moot question whether or not the government should take money from these service corporations by taxation or otherwise and then allow them to recover these expenses by charging higher prices and rates to the public consumer The railroads, for example, pay high taxes which are treated by the Interstate Commerce Commission as costs of operation and may be taken into consideration in the fixation of rates.[1]

In this chapter, the general principles of the taxation of these service corporations affected with public interest will be discussed, followed by a consideration of the regulatory measures that have been imposed on chain stores under the general powers to tax In the taxation of this special group of business enterprise the legal and constitutional questions are particularly important,

[1]Galveston Electric Co v City of Galveston, 258 U S 388 (1922), Georgia Railway and Power Co v. Railroad Commission of Georgia, 262 U S 625 (1923) In these cases, the United States Supreme Court held that taxes may be regarded as costs of operation which may be taken in consideration in the determination of a reasonable return upon capital invested

hence, many of the great court decisions bearing on these issues will be presented even at the expense of emphasis on this phase of the subject

Taxation of Banks. The taxation of banks presents some very complicated problems because of the nature of their business, and because they are affected with public interest Banks deal primarily in intangible instruments of debts, such as paper currency, stocks and bonds, deposits, promissory notes, drafts, bills of exchange and negotiable documents of title They also possess the ability to create purchasing power through the credit that they lend at interest to business enterprise for production purposes The taxation of such intangibles always presents a problem to all grades of government

The taxation of banks is further complicated by the fact that both the federal and state governments have concurrent power to create banking and other financial institutions The national banks are chartered by the federal government, and have been held by the courts to be instrumentalities of government They therefore cannot be taxed or otherwise controlled by the states or local governments without the express permission of Congress [2]

At the time the First United States Bank was organized in 1791, the principal taxation of such institutions was on their general property It was not until around the turn of the nineteenth century that levies were imposed, on intangibles such as capital stock and on their dividends, either by special statutory provisions or at the regular general property rate. In 1812, the federal government imposed an excise tax in the form of stamp duties on all promissory notes issued or discounted by banks The variety of tax levies increased until today banks may be taxed on their franchise, real and personal property, bank notes, commercial paper issues, dividends, deposits, capital stock, and income.

The question of the constitutionality of the First United States Bank was raised at once Hamilton insisted that the federal government had the right to organize such financial institutions to do a general banking business under the implied powers of the United States Constitution, whereas Jefferson on the other hand contended that it was an exercise of power by

[2]See Farmers' and Mechanics' Bank v. Dearing, 91 U. S. 29 (1875); Owensboro Nat Bank v. Owensboro, 173 U S 664 (1899), First Nat. Bank of Albuquerque v Albright, 208 U S 548 (1907), Van Allen v. Assessors, 3 Wall 573 (1865), Bradley v. Illinois, 4 Wall 459 (1866).

Congress which was clearly unconstitutional Actually, nothing was done about this constitutional question until in 1819, when the great case of McCulloch v Maryland was decided by the United States Supreme Court.[3]

The Second United States Bank was organized in 1816, and immediately the question of constitutionality arose again The Banking Act of 1816 provided for a central bank at Philadelphia with branches located at various strategic points throughout the United States The purpose of this central federal system was, in part, to act as a check upon the wild-cat speculation of state banks, to which indirect regulation they objected most strenously.

This Second United States Bank had established, among other branches, a bank at Baltimore, Maryland The State of Maryland had placed a special tax upon issues of currency by all banks not chartered by the State but doing business within its territorial limits When McCulloch, the local manager of the federal branch in Baltimore of the Second United States Bank, refused to pay the assessment, suit was brought to collect it The opinion written by Chief Justice Marshall decided two major questions: first, that the United States Government possessed the implied constitutional power to establish a bank, and, second, that such financial institution as the Second United States Bank was an instrumentality of the federal government, and therefore, it was not subject to taxation by the states, unless Congress should so provide, which it did very liberally at a later date While the McCulloch case basically involved the constitutional authority of the federal government to establish a bank, like many other great cases, it grew out of the tax power of the states to tax instrumentalities of the United States Government

After unanimously declaring that the law passed by the legislature of Maryland, imposing a tax on the Bank of the United States, was unconstitutional and void, the Chief Justice further said

> This opinion does not deprive the states of any resources which they originally possessed It does not extend to a tax paid by the real property of the bank, in common with other real property within the state, nor to a tax imposed on the interest which the citizens of Maryland may hold in this institution, in common with other property of the same description throughout the State But this is a tax on the opera-

[3] 4 Wheat 316 (1819)

> tions of the bank, and is, consequently, a tax on the operation of an instrument employed by the government of the Union to carry its powers into execution. Such a tax must be unconstitutional.[4]

In this famous case, the United States Supreme Court drew the distinction between an excise tax on the operations of a bank and on its physical assets or personal and real property used in its operation. This case settled certain fundamental constitutional questions in regard to taxation of banks which have never been raised since that time

It was about this time that the states began taxing the intangible property of their own banks In 1791, the legislature of Rhode Island granted a special charter of incorporation to certain individuals to do a banking business In 1822, a special tax of fifty cents was imposed on every thousand dollars of its capital stock by the State of Rhode Island. The bank resisted payment of the tax on the ground that its imposition was an impairment of its grant of authority to do business But the United States Supreme Court, Chief Justice Marshall speaking, in the famous case of Providence Bank v Billings,[5] held that, unless exempt by law or by charter provision, the bank was liable on a tax levy the same as any other kind of organization carrying on the same business A tax imposed subsequently on its business franchise or property was held not to be an impairment of its grant of authority by the state of its creation

The origin of the present system of taxing of banks and other financial institutions probably lies in the Act of Congress of June 3, 1864. This Act required all national banks to pay to the Treasurer of the United States, in lieu of all existing taxes, a duty of certain percentage upon the average amounts of their notes in circulation, their deposits, and their capital stock.[6] Another section of this Act provided that "nothing herein shall prevent all the shares in any association from being included in the valuation of the personal property of the holder . in assessing taxes imposed by authority of the state in which the association is located"

The Act of Congress in 1866 raised another constitutional question in regard to taxation of banks, which, however, was

[4]Also see Panhandle Oil Co v State of Mississippi, 277 U S. 218, 48 S Ct. 451 (1928), and Groves v Texas, 298 U S 393, 56 S. Ct 818 (1936)

[5]4 Pet (29 U S.) 514 (1830)

[6]Rev. St. U S, par 5214 (U. S Comp St 1901, p 3500).

almost entirely one of regulation. Until that time, it was the practice of state banks to issue their own paper currency, much of which was of doubtful value With the obvious intention of making such issues unprofitable, Congress in the Act of 1866, imposed a 10 per cent tax upon the circulation of notes by all state banks In Veazie Bank v Fenno,[7] the court was asked to decide whether Congress could thus interfere with the privilege granted by the states by taxing their banks. The United States Supreme Court held that the tax was constitutional as a means of regulating the value of the national currency The court said "the judiciary cannot prescribe to the legislative department of the government limitations upon the exercise of its acknowledged powers The power to tax may be exercised oppressively upon persons, but the responsibility of the legislature is not to the courts, but to the people by whom its members are elected So if a particular tax bears heavily upon a corporation, or a class of corporations, it cannot for that reason only, be pronounced contrary to the Constitution." Congress, having established a national currency, had the powers to protect its value by removing bank notes of inferior value If it chose to accomplish this purpose by imposing a prohibitive tax it could do so constitutionally

In 1868 Congress provided unequivocally that the "place where the bank is located, and not elsewhere," is its taxable situs, and the state must not discriminate in any manner or by any means against a federal bank in favor of its own or other financial institutions. This Act remained substantially unchanged until 1923, when authority was extended to the states either to tax the shares or the dividends of all national banks In 1926, in order to bring these taxes more in line with the taxing systems of the various states, and particularly to permit them to reach interest on tax-exempt securities, the act was extended to include net income of the banks.

The next important federal legislation in regard to taxation of national banks was passed the latter part of 1926. It is known as Section 5219 and reads as follows.

> The Legislature of each state may determine and direct, subject to the provisions of this section, the manner and place of taxing all the shares of national banking associations located within its limits The several states may (1) tax said shares, or (2) include dividends derived therefrom in the taxable income of an owner or holder thereof, or (3) tax such

[7] 8 Wall. 533 (1869)

associations on their net income, or (4) according to or measured by their net income, provided the following conditions are complied with

1. (a) The imposition by any state of any one of the above four forms of taxation shall be in lieu of the others, except as hereinafter provided in subdivision (c) of this clause.

   (b) In the case of a tax on said shares the tax imposed shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such state coming into competition with the business of national banks

   Provided, that bonds, notes, or other evidence of indebtedness in the hands of individual citizens not employed or engaged in the banking or investments not made in competition with such business, shall not be deemed moneyed capital within the meaning of this section

   (c) In case of a tax on or according to or measured by the net income of an association, the taxing state may, except in case of a tax on net income, include the entire net income received, from all sources, but the rate shall not be higher than the rate assessed upon other financial corporations nor higher than the highest of the rates assessed by the taxing state upon mercantile, manufacturing, and business corporations doing business within its limits Provided, however, that a state which imposes a tax on or according to or measured by the net income of, or a franchise or excise tax on, financial, mercantile, manufacturing, and business corporations organized under its own laws or laws of other states and also imposes a tax upon the income of individuals, may include in such individual income dividends from national banking associations located within the state on condition that it also includes dividends from domestic corporations and may likewise include dividends from national banking associations located without the state on condition that it also includes dividends from foreign corporations, but at no higher rate than is imposed on dividends from such other corporations

   (d) In case the dividends derived from said shares are taxed, the tax shall not be at a greater rate than is assessed upon the net income from other moneyed capital

2. The shares of any national banking association owned by non-residents of any state, shall be taxed by the taxing district or by the state where the association is located and

not elsewhere; and such association shall make return of such shares and pay the tax thereon as agent of such nonresident shareholders.

3. Nothing herein shall be construed to exempt the real property of associations from taxation in any state or in any subdivision thereof, to the same extent, according to its value, as other real property is taxes
4. The provisions of section 5219 of the Revised Statutes of the United States as in force prior to March 25, 1926, shall not prevent the legalizing, ratifying, or confirming by the states of any tax heretofore paid, levied, or assessed upon the shares of national banks, or the collecting thereof, to the extent that such tax would be valid under said section

It therefore follows from Section 5219 of the federal law that the shares of stock in a national bank are subject to taxation by the state in which the bank is located, and the legislature may direct and determine the manner and place of taxing the shares, subject to the restrictions (1) That the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of the states, and (2) that the shares owned by nonresidents shall be taxed in the city or town where the bank is located The real and personal property of the bank is subject to state, county, and municipal taxes, to the same extent, according to its value, as other real property

The provision in the law that holds that national banks cannot be taxed at a higher rate than other competing institutions has caused a great degree of uniformity of bank taxation among all the states in the Union In 1921, the United States Supreme Court, in the case of Merchants' National Bank v City of Richmond,[8] interpreted the phrase — "other moneyed capital" — to include "not only money invested in private banking but investments of individuals in securities that represent money at interest and other evidences of indebtedness such as normally enter into the business of banking " This decision will probably destroy all special classification of bank shares

It is quite generally held by the courts that no state can tax the instrumentalities of the federal government, and for that reason Congress usually makes special provisions by which its

[8] 256 U S. 635 (1921) For a slightly different and somewhat confused holding see First National Bank of Hartford v Hartford, 273 U S 548 (1927), and also Minnesota v First National Bank of St Paul 273, U S 561 (1927)

agencies may be taxed by the states and local units. This problem is frequently avoided by the nature of the particular agencies, which may have no private shareholders or net income, or, as in the case of the Federal Reserve Banks, the shares of which may be included in the taxable assets of the stockholding banks.

As a general rule, the acts of Congress which created the special New Deal agencies provided that their real estate should be taxed by the state as other property of similar kind and character. It is almost a uniform rule that all bonds and other obligations issued by these government agencies shall be exempt from state taxation; however, Congress provided that the debentures and other instruments of indebtedness of the National Agricultural Credit Corporations should not be taxed at a higher rate than other moneyed capital in the hands of individuals

It was provided that many government agencies, such as the Federal Home Loan Banks, should be exempt from all state and local taxation on their franchises, capital, reserves, surplus, advances and income. Other institutions under the Farm Credit Act of 1933, including the Central Bank for Cooperatives, Production Credit Corporations, Production Credit Associations, and Banks for Cooperatives were taxable on their real and tangible personal assets In a few cases, as with the Federal Land Banks, the National Farm Loan Associations, the National Agricultural Corporations, and the Federal Credit Unions, their capital, surplus, reserves and income were exempt from state and local taxation, except those shares in the hands of individuals, which could be taxed in the same manner as National Bank shares under Section 5219, together with their real estate

With few exceptions, the states tax bank shares as any other personal property, and this rule extends to all competing financial institutions alike, whether they are organized by the federal government or by the state. A few states, like Mississippi and Ohio, extend the tax to unincorporated banks

As was previously explained, National Bank shares owned by nonresidents of any state shall be taxed by the taxing district, or by the state where the bank is located and not elsewhere. In case a bank has branches, taxation is usually imposed on its shares in the various districts in which the branches are located, in proportion to each branch's deposits Nevada provides, in the case of banks having branches, for the taxation of their shares in the various districts in which the branches are located, in

proportion to the deposits in the various branches. It has been held, however, that state bank shares may be taxed to nonresidents in another state, even though they are subject to taxation by the state in which the bank is located. Stock shares are taxed upon an ad valorem basis, and the actual value, fair market value, or true value may be taken

Nearly every state allows certain deductions when stock shares are taxed Most states allow the exclusion or deduction of the assessed or book value of bank real estate and sometimes the equity of the bank in a subsidiary building corporation. Michigan allows the value of exempt securities which represent investment of capital, surplus, or undivided profits, to be deducted. Nevada allows deduction of mortgages or deeds of trust upon which taxes have been paid North Carolina permits exemption to the amount of all bad debts and investments in state, federal and land bank bonds which are held for a prescribed period

The right of a state to impose a tax on bank dividends has seldom been exercised, because one of the other three methods which the Act of 1923 allows is more productive of revenue and is more accessible Imposition on net income has been used at one time or another by about all the states, of which Wisconsin is an example. The excise tax by which national banks are taxed "according to or measured by their net income" is also used by many states Such tax is very similar to excise taxes imposed upon the income of other corporations.

Taxation of Insurance Companies. Among the first corporations to be created in this country were insurance companies, hence, it is not surprising that they were taxed at a very early period. In 1824, New York levied a 10 per cent tax on all premiums of fire insurance companies collected within the state Vermont imposed a similar tax the following year. Other types of insurance have been included until today the taxation of this business has become universal among the states The federal government taxes insurance companies on their net incomes, as it does banks

Insurance is a business which is entirely created and regulated by the states. Many years ago the United States Supreme Court held that the insurance business was not interstate, and, therefore, was not subject to regulation by the federal government [9]

[9] Paul v Virginia, 8 Wall 168 (1869), Hooper v California, 15 S Ct 207 (1895), New York Life Ins Co v. Deer Lodge County, 231 U S 508 (1913)

In a recent case, however, the court has apparently reversed this long-standing ruling and has held that, for certain purposes, insurance may be interstate business and therefore subject to the federal laws How far the federal government may extend this right of control remains to be seen Control may not extend further than the application of the anti-trust laws.[10]

Insurance companies may be subjected to many different forms of taxation among which are: (1) ad valorem taxes on real and personal property, (2) franchise taxes, (3) income taxes, (4) taxes on capital and stock, (5) taxes on credits and securities, (6) taxes on surplus and reserve funds, (7) taxes on premiums and other receipts, and (8) business license taxes A few states tax their own insurance companies only on their general property, while foreign insurance corporations are subjected to additional special levies, although, as a general rule, both domestic and foreign companies are subject to special as well as to ad valorem duties

The most common form of taxation on insurance companies is the so-called "gross premium tax" In one form or another, such a tax has been imposed by almost every state in the Union upon domestic and foreign insurance companies. It alone accounts each year for about 75 per cent of the total taxes paid by insurance companies.

In general, taxes on gross premiums are in the nature of excise or privilege taxes, and they are levied for the privilege of doing business in the state The chief reasons the gross premium tax on insurance companies is so generally used are that it is very productive of revenue, is easily collected, is fairly easily administered, and the corporations generally accept it without complaint

In many states, gross premium taxes are "in lieu of" other taxes, although this provision does not apply to taxes which are imposed on real property The law of Minnesota, for example, provides that all domestic insurance companies, in lieu of all other taxes except those on real property that is owned within the state, and all foreign companies, in lieu of all taxes except those on real and personal property, shall pay a gross premium tax

Missouri provides that all foreign insurance companies shall pay a premium tax in lieu of all other taxes This gross premium

[10]United States v Underwriters Assoc, 322 U S 533 (1944) See also United States v South-Eastern Underwriters Assoc, 64 S Ct 1162 (1944), Robertson v California, 66 S Ct 1160 (1946), and Prudential Ins. Co v Benjamin, 66 S Ct. 1142 (1946)

tax is usually based only on the premiums that are collected within the state, although, in some states, the term is made so broad as to include any premiums from whatever source derived.

As a general rule, the tax is computed on the total gross premiums which the insurance company receives, although many states now allow such deductions as: amounts paid as return premiums within the taxing state, ad valorem taxes, dividends which have been paid to policy holders, local fire department taxes, losses which have been paid within the taxing state, matured endowments and increases in reserves

The rate of the tax is usually a fixed percentage of the taxable gross premiums, and, in some states, it is higher for foreign companies than for domestic Many states have retaliatory clauses in their statutes in order to subject foreign corporations to the same rates that the home states of such corporations impose on corporations of the taxing state. The tax rates on insurance companies vary considerably among the various states. On life insurance companies, they range from 1 to 2 per cent on domestic corporations, and on foreign companies from 2 to 3 per cent The average rate for fire insurance companies, both domestic and foreign, is about 2 per cent.

Taxation of Public Utilities. First, it should be clearly understood just what is meant by and included under the general term "public utility" A public utility may be defined as any private business which so vitally affects the general public interest that the state finds itself compelled to grant it a special and exclusive franchise of operation and more or less to regulate all its activities Under this classification fall such businesses as the railroads, telephone and telegraph lines, water, gas and electric, and power companies All public utilities are affected with public interest, and are therefore specially enfranchised by the government

The first question that may be raised is: Should public utilities be taxed at all, and, if so, should they be taxed on the same basis as other forms of business? Some public officials and economists contend that they should not be taxed because, since their rates are fixed and their activities are regulated by the government, public utilities are in effect but arms of the state, and to tax them would be but giving money to the people by one means and at the same time asking them to return it by another channel through higher charges for services.

Some economists attempt to justify taxation of public utilities on the ground that they are legal monopolies, and that the tax could be used as a means of recapturing for public use some of the monopoly profit. But these persons seem to have forgotten that, while public utilities are monopolies, their opportunities of obtaining monopoly profit are eliminated through strict government regulation. In general, it may be said that a tax upon public utilities is, like that placed on other forms of private business, shifted to the consumer because it is nearly always regarded as a factor in the cost of production, and therefore it reappears in the price charged consumers of goods or services. The United States Supreme Court, in the Galveston Electric Company v. City of Galveston case, *supra,* held that all taxes may be counted as part of the operating costs in determining a fair rate of return on investment. In the last analysis, perhaps the real reason and justification of taxation on public utilities is the fact that they furnish a good source for large amounts of revenue; the problem of getting it from them is not particularly difficult

Public utility companies may be subjected to almost every type of tax that may be imposed against any private business or corporation, such as income tax, franchise tax, and general property tax Most taxes on public utilities are imposed by state and local governments, the variety is almost as great as the number of taxing units The most commonly assessed taxes against public utilities are the ad valorem tax on the value of the property of the corporation, and the tax on earnings.

The ad valorem basis of taxation is most widely used by state and local governments. It is an attempt to apply the principles of the general property tax to the physical assets of the utility corporation. Several difficult problems are associated with this method of taxation, one being that of administration, and the other, evaluation of the properties. The physical assets of the corporation must be evaluated; this may not be easy because only a portion of this property may lie within the jurisdiction of the taxing district Railroads, telephone, telegraph, and pipe lines may extend many hundreds of miles through several states. At one time, each taxing district attempted, in some manner, to evaluate the bit of railroad that lay within its borders. But one need only imagine the perplexity of the local township or county assessor when he attempts to evaluate three miles of the Pennsylvania Railroad which lie within his tax district

This difficulty has almost universally caused the evaluation, assessment and collection of taxes on the large public utilities to be centralized into the hands of the state tax departments. In fact, most states now have highly organized tax departments of technical experts who give a large part of their time to the evaluation and assessment of the public utilities within the state

It is the duty of these tax departments not only to fix this valuation, but also to keep a constant check on all changes in the corporate investment and to keep the valuation for taxation purposes up to date at all times. Even a unit as large as a state often experiences great difficulty in assessing only that part of a railroad that lies within its borders. The practice now is for all the states through which the railroad passes to evaluate the utility as a whole, and then to allocate this valuation among the states for taxation purposes, usually in accordance with the mileage that lies within their respective borders This is known as the "Unit Rule"

The state tax commission may handle the local matters in either of two ways The commission may collect the tax from the utility and allocate the proceeds among the interested local taxing districts, or apportion the valuation among them and allow them to make their own levies and do their own tax collecting. The first method of allocation is usually followed, it is generally done according to the mileage of the public utility that lies within the respective borders of each local unit

There are many objections to the ad valorem basis of taxing, these arise on both technical and general grounds It is difficult to get an evaluation of property assets, except on a more or less arbitrary and unequal basis. As a general rule, property is assessed for taxation purposes at its fair market value; but, since railroads, telephone, telegraph and pipe lines are almost wholly composed of fixed assets and are very seldom bought and sold in an open competitive market, their exact fair market value is not readily determined

There are no well established criteria or principles for fixing a just and equitable property valuation for purposes of taxation, especially when the property happens to belong to a class for which there is no general market Under such circumstances, the valuation must be determined indirectly by resort to such factors as a capitalization of earning power; opinion and judgment

of expert appraisers; capital stock outstanding, including bonds; reproduction cost; original cost, less depreciation. When the property valuation of any public utility has once been determined for taxation purposes, it is a fairly easy matter for a state tax commission to keep it constantly up to date by noting all subsequent changes in investment.

Next to the ad valorem basis, earning power is the basis most widely used to determine the taxable capacity of a public utility. The rate is usually fixed at a certain percentage of the gross receipts or gross earnings After all, the value of property may not be a true measure of the utility's ability to pay taxes. The real worth is its power to earn It is not surprising, therefore, that so many states take earning power into consideration in determining the value of a corporation's property.

As between gross receipts and net earnings, the former is the simpler as a basis for taxation. What the gross receipts of a corporation are is fairly easily ascertained. But to determine the net earnings, it is necessary to deduct all expenses of operation, including depreciation, obsolescence and replacement costs, these are technical matters and are often not easily determined Few states allow any deductions from gross receipts, except occasionally for bad debts. The whole amount of the gross is taken as the taxation basis

In Illinois the definition of "gross receipts" is typical and clear; for communications services it is as follows: "'Gross receipts' means the consideration received for transmission of telegraph or telephone messages . . . and for all services rendered in connection therewith, including minimum service charges, and shall include cash, services and property of every kind or nature and shall be determined without any deduction on account of the cost of the service, product or commodity supplied, the cost of materials used, labor or service costs, or any other expense whatever In case credit is extended, the amount thereof shall be included only as and when payments are received."

Not many public service corporations are exempt under the gross receipts tax laws In general, such exemptions, where allowed, may include: (1) railroads and industrial concerns that provide goods and services for themselves and their employees; (2) mutual co-operative telephone companies having charters which exempt them from taxation; (3) holding companies, and

(4) transactions which are protected by federal or state constitutions and laws.

The courts have held that an excise tax by the states that is imposed directly on gross receipts derived from interstate or foreign commerce or laid indiscriminately on instrumentalities irrespective of whether they are used in interstate or foreign commerce, is unconstitutional. But it has also been held that a property tax that is measured by gross receipts is not an invalid burden upon interstate commerce.

The laws of most states specifically limit the gross receipts tax to purely intrastate commerce The following provisions are commonly found in state tax statutes: (1) gross receipts derived from business that is transacted wholly within the state, (2) gross receipts derived from business wholly within the state; (3) gross receipts from intrastate business.

If a corporation operates only in intrastate commerce, all its gross receipts are taxed, but if its business is both inter- and intrastate, then the state taxes the latter receipts only and exempts the former

Taxation of Government Agencies. In general, because of the dual system of government in the United States, neither the federal nor the state government can interfere with the other in the exercise of its respective constitutional functions. This prohibition especially applies to the power of taxation.[11] The fundamental reason for denying either authority the right to tax, "as we have frequently said, is found in the necessary protection of the independence of the national and state governments within their respective spheres under one constitutional system."[12]

In creating certain governmental agencies, Congress frequently inserted tax provisions in the statutes of their origin. By Section 10 of the Reconstruction Finance Corporation Act,[13] Congress made it clear that states and local governments were not permitted to impose taxes on the franchise, capital, reserves, surplus, income, loans or personal property of the RFC or of any of its subsidiaries Congress did provide in the same section, however, that "any

[11]As to the constitutional tax immunity of governmental properties, see United States v County of Allegheny, 64 S Ct 908 (1944), Pittman v Home Owners Loan Corporation of Washington, D C, 60 S Ct 15 (1939), Maricopa County v Valley National Bank, 63 S Ct 587 (1943)

[12]Helvering v Powers, 55 S Ct 171 (1934)

[13]47 U S Stat 5, 9, 55 U S Stat 248

real property" of these governmental agencies "shall be subject to state, territorial, county, municipal or local taxation to the same extent according to its value as other real property is taxed.[14]

When the Tennessee Valley Authority was created, the question was asked immediately: Is its property subject to state and local taxes, or will federal ownership and operation immunize it from such levies? If the TVA is to serve as a "yard stick," its operation must contain all the items of cost so as to put it under the same competitive conditions as if it were a private enterprise Accordingly Congress provided that "five per centum of the gross proceeds received by the board from the sale of power generated in Alabama shall be paid to Alabama," and a like amount to Tennessee on power generated in that state On its own authority, the TVA set up in its accounts an amount equal to the taxes it would pay if it were a privately owned utility. In this manner, the TVA largely overcame the criticism that it was operating under conditions of unfair advantage

Although held unconstitutional,[15] the tax provision of the Agricultural Adjustment Act is still important. The AAA statute imposed a tax upon processors of agricultural products, such as slaughterhouses and grain mills In anticipation of paying this tax, the processors added the levy to the sales price, thus immediately shifting it on to the consumer Upon invalidation of the AAA, it was provided in the Revenue Act of 1936 that no processor could obtain a refund of such taxes unless it could be shown that the tax had not been passed on to his vendees.[16] This same revenue act also provided that where the tax had been passed on and had not been paid to the federal government and, because of the invalidity of the AAA, would not be paid, such income should be taxed 80 per cent on the theory of "unjust enrichment." This provision is also known as the "windfall tax." This tax was upheld in the Union Packing Co v. Rogon, 17 F. Supp 934 (1937)

Chain Store Taxation. It has always been a question why chain stores should be singled out for special taxation Do chain stores possess special ability to pay which is not enjoyed by the independent merchants? The alleged reason for this special taxation is that chain stores enjoy special "unfair" economic advantages Because of their greater size, they can buy more

[14]See Reconstruction Finance Corp. v Brown County, Pa, 66 S Ct 992 (1946)

[15]United States v Butler, 56 S Ct 312 (1936)

[16]Anniston Mfg Co v Davis, 57 S Ct 816 (1937)

cheaply, and thus by cutting prices they are able to drive the independent merchant out of business Many, therefore, regard the chain store as a type of business which should be driven out of existence About half of the states in the Union now have some kind of special regulatory tax on chain stores, the most common type being based on the number of stores in the chain. As a rule, the larger the number of stores in the chain, the higher the tax

The obvious purpose of these special taxes by the states on chain stores is regulation. It is an attempt to create equality of competition or to suppress alleged unfair practices through the general power to tax It should also be understood that chain stores are taxed on their general property, stocks, franchises, and incomes at the usual federal and state rates, like other businesses and corporations It is these special regulatory taxes that are especially important here

During the last few years, the courts have decided many cases on the constitutionality of chain store taxation Perhaps one of the first and most important cases was the State Board of Tax Commissioners of Indiana v. Jackson[17] In 1929, the State of Indiana passed a law which required any person or association engaged in the retail grocery business to be licensed and to pay a fee as follows·

> 1 Upon one store, the annual license fee shall be three dollars for each such store;
>
> 2 Upon two or more, but not to exceed five stores, the annual license fee shall be ten dollars for each such additional store,
>
> 3 Upon each store in excess of five, but not to exceed ten, the annual license fee shall be fifteen dollars for each such additional store,
>
> 4 Upon each store in excess of ten, but not to exceed twenty, the annual license fee shall be twenty dollars for each such additional store,
>
> 5. Upon each store in excess of twenty, the annual license fee shall be twenty-five dollars for each such additional store

Jackson, who operated 225 stores in the city of Indianapolis, alleged that this tax was based upon an unreasonable and arbitrary classification, and therefore violated the Fourteenth Amendment,

[17] 283 U S 527 (1931) Also see Midwestern Petroleum Corp. v State Board of Tax Commissioners, 206 Ind 688 (1933), in which the same statute was sustained

and hence was unconstitutional. It was shown that there were many points of difference between chain stores and independently operated units — quantity buying, buying for cash, skill in buying, pricing and sales policy, greater turnover, better advertising, concentration of management, and special accounting methods.

The United States Supreme Court held, Justice Roberts speaking: "The power of taxation is fundamental to the very existence of the government of the states The restriction that it shall not be so exercised as to deny to any the equal protection of the laws does not compel the adoption of an iron rule of equal taxation, nor prevent variety or differences in taxation, or discretion in the selection of subjects, or the classification for taxation of properties, businesses, trades, callings, or occupations A very wide discretion must be conceded to the legislative power of the state in the classification of trades, callings, businesses, or occupations which may be subjected to special forms of regulation or taxation through an excise or license tax If the selection or classification is neither capricious nor arbitrary, and rests upon some reasonable consideration of difference or policy, there is no denial of the equal protection of the law . In view of the numerous distinctions above pointed out between the business of a chain store and other types of stores, we cannot pronounce the classification made by the statute to be arbitrary and unreasonable."

The Indiana law was therefore held to be constitutional and hence the classification of chain stores under these conditions for taxation purposes was reasonable and enforceable

In the last few years, many other states have attempted to tax chain stores In 1931, the state of Florida passed a law to tax chain stores, which was promptly held unconstitutional by the United States Supreme Court.[18] This law classified chain stores for purposes of taxation according to whether or not they extended into more than one county, which the court held to be an unreasonable basis The Kentucky law enacted for the taxation of chain stores was likewise declared unconstitutional, chiefly on the ground that a classification of stores on the basis of volume of sales was arbitrary and unreasonable A law in Wisconsin, very similar to the Kentucky statute, was held to be unconstitutional for much the same reason [19] The attempt in Louisiana to tax chain stores was sustained because, like the Indiana statute, the tax was

[18]Liggett Co. v Lee, 53 S Ct 481 (1933).
[19]Ed. Schuster & Co. v. Henry, 218 Wisc. 506 (1935).

graduated according to the number of units in the chain throughout the entire country.[20]

The United States Supreme Court held that, "If the competitive advantages of a chain increase with the number of its component links, it is hard to see how these advantages cease at the boundary . . all the stores of a retail chain contribute to the central purchasing power of the chain irrespective of state lines and location of store, and increase the per unit multiple advantage enjoyed by the operator of the system; that the greater the number of units the greater the purchasing power of the chain, the greater the rebates and allowances, the greater the advantages in advertising, the greater the capital employed, the greater the economic and social consequences, and the lower the cost of distribution and overhead "

The taxation of chain stores in West Virginia is so important and typical that it deserves special mention, not only because of the classification and system to rates there charged, but also because another type of retail unit than the ordinary grocery store is involved

The West Virginia law provides that every person who establishes, operates, or maintains one or more stores within the state under the same general management must pay a license fee The schedule of rates is as follows:

NUMBER OF STORES	FEE
First	$ 2 00
Second to fifth	5 00 each
Sixth to tenth	10 00 each
Eleventh to fifteenth	20 00 each
Twenty-first to thirtieth	35 00 each
Thirty-first to fiftieth	100.00 each
Fifty-first to seventy-fifth	200 00 each
Seventy-sixth and succeeding	250.00 each

West Virginia extended the above chain store tax to include a chain of filling stations which the Standard Oil Company operated within its borders and assessed a tax of $250 on each unit The oil company contended that filling stations were not stores, but the Supreme Court ruled to the contrary, holding. "The term 'store' as used in this act shall be construed to mean and include any store or stores or any mercantile establishment or establishments which are owned, operated, maintained and/or controlled by the same person, firm, corporation, co-partnership, or association,

[20]Great Atlantic & Pacific Tea Co v. Grosjean, 57 S. Ct 772 (1937)

either domestic or foreign, in which goods, wares or merchandise of any kind, are sold, either at retail or wholesale "

Justice Cardozo, speaking for the Court, went even further to say that if a classification were reasonable, and not arbitrary, the amount of the tax could not be questioned, *even if it should go so far as to destroy the business. If the state has the constitutional right to levy a tax, the extent of its use is not to be questioned, because the power of taxation is the exercise of a sovereign right.*[21]

In conclusion, it may be said that the special taxation of chain stores should be founded upon another basis than that of pure regulation. Chain stores may not be any more a social menace than other great trust and industrial combinations, although they may be fully able to pay these special taxes. Perhaps the states will follow the federal government to regulate chain stores by passing acts similar to the Robinson-Patman Act, instead of attempting to accomplish the same purpose through the process of taxation.

Summary. The taxation of corporations, such as banks, insurance companies, railroads and other public utilities, is in many ways different from the taxation of private business. These special corporations are affected with public interest, and at least the banks are regarded as instrumentalities of government Each of these special types of business may be required to pay the usual taxes levied on any private enterprise. The question is often asked: Since these public corporations are affected with public interest, why should they be taxed at all or in the same manner as private business? Also, since this tax is regarded as an element in their costs of production which must appear in higher rates or prices to the consumer, is not its imposition and shifting a needless and perverted use of the taxing process?

These public corporations are monopolistic, but they cannot charge "what the traffic will bear" because their rates, prices, investments, and dividends are subject to such strict government regulation. Since many of them are privately owned and enjoy the protection and other advantages of government, perhaps they should contribute toward its support The Interstate Commerce Commission, the Federal Power Commission, the Federal Communication Commission, the Public Utility Act of 1936,

[21]Fox v Standard Oil of New Jersey, 55 S Ct 333 (1935). Italics are those of the authors

and the Security and Exchange Commission, to say nothing of the state and local commissions and agencies are created for regulating their respective utilities and are very expensive functions of the government.

The problem of taxing banks is peculiar in that such a great part of their assets is intangible. They are also creatures of state and federal governments, hence instrumentalities of government This difficulty, to a large extent, has been obviated by the grant of special permission to tax by the federal government The Civil War Act of 1864 laid the basis for taxation of banks, which was enlarged in 1926 by Section 5219 of the Federal Bank Act. The taxation of interstate utilities presents something of a problem. The United States Supreme Court has generally denied a tax by the states on gross income, where all or part is earned in interstate commerce, as an interference with trade among the states or with foreign nations

On property evaluation of interstate utilities for taxation, the states through which they pass usually consider the realty and personalty as a whole and then allocate the yield or assessment among themselves, usually on basis of mileage Each state is free to levy on its allotted valuation as it desires The yield is further divided among the local units, generally on the basis of mileage lying within their borders

Until recently, insurance companies have been held subject to the exclusive control of the states of their creation. A great variety of taxes has been imposed upon insurance companies by the states, of which taxes on property, gross and net premiums are the most common

Chain stores have been subjected to special heavy taxes largely for regulation purposes Where the tax has been imposed upon a reasonable classification of the units of the chain it has been held not to violate the Fourteenth Amendment and hence constitutional.

TEXT QUESTIONS

1. What is meant by the term "quasi-public" corporations? Give some examples of them
2. Discuss fully the case of *McCulloch v Maryland*
3. Explain the importance of the Act of Congress of June 3, 1864
4. What was the question in *Veazie Bank v Fenno*, and how was it decided?
5. Discuss briefly the history of taxation of banks in the United States, citing important dates and cases

6. Why does Congress usually make special provisions by which its agencies may be taxed by the states and local units?
7. A resident of Illinois, buys shares in the National Bank of Joplin, Missouri To which state will he pay the tax on those shares and why?
8. Why has the right of a state to impose a tax on bank dividends seldom been exercised?
9. What is the significance of the cases of *Paul v. Virginia* and *United States v South-Eastern Underwriters Association*?
10 Explain the "gross premiums tax."
11. What is a "public utility"? Give some examples.
12. Discuss the problem of evaluation of assets of public utilities
13 Explain the "unit rule"
14. What are some of the objections to the ad valorem basis of taxing public utilities?
15. Why are gross receipts more generally used as a tax basis than net earnings?
16. Explain Section 10 of the Reconstruction Finance Corporation Act
17. What is the "windfall tax"?
18 What is the main purpose of chain store taxation?
19 Why was the Florida chain store tax of 1931 held unconstitutional?
20 Why were the chain store taxes of Indiana and Louisiana upheld by the Supreme Court?
21. What was the contention of the Standard Oil Company in regard to West Virginia's taxation of chain stores? What was the Supreme Court ruling on the question?
22 What is the problem in the taxation of utilities operating in interstate commerce?

APPLICATION PROBLEM

1 Can you make out a case for a separate taxation of intangibles, such as is now imposed in Missouri? Why are corporate dividends sometimes exempt when such other items as income on bonds and interest on money in the bank are included?

RESEARCH TOPICS

1 Visit one of your large banks in your community and make a study of all the taxes which are imposed upon it by the federal, state and local governments To what extent do you believe that these taxes are shifted, and upon whom? To what extent is there equality of taxes (lack of discrimination) imposed by the federal and state governments on banks in your community?
2 Visit the office of a large insurance company in your immediate community and make a study of all the taxes which are imposed upon it Does the federal government impose any of these taxes? Does your state have any comity of arrangements with other states in regard to the taxation of insurance?

3 In the taxation of pipelines, telegraph and telephone lines and railroads that extend into other states, does your state have any comity of arrangements with these other states? These facts can perhaps be best obtained from your state tax commission.

4. To what extent do your state and local governments provide for, and allow, classification of property for taxation purposes? Consider such bases as real and personal property and chain stores. Has this matter of classification of property and business enterprises for purposes of taxation ever been adjudicated by the courts in your state?

5 By referring to the statute of your state, examine specifically into the extent to which your state has taken advantage of Section 5219 of the federal law in the taxation of banks

6. What application can you make of the principle announced in the following court decisions?
   a. First National Bank v. Board of County Comrs, 44 S. Ct 385 (1924)
   b Security National Bank v Young, 55 Fed. (2d) 616 (132)

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CHAPTER 25

ESTATE, INHERITANCE, AND GIFT TAXES

Governments generally levy taxes on the descent or transfer of decedent estates. These taxes are sometimes called death taxes, especially in England; in the United States they are almost universally known as estate and inheritance taxes. Two general types of these taxes are in use today. One type is the estate tax which is levied on the transfer of the net corpus before any part of the property has been distributed to the heirs or beneficiaries The other type is the inheritance tax which is levied on the transfer of the share each heir or beneficiary receives after provisions have been made for distribution, usually through the probate or surrogate courts The estate tax is a levy on the right to transmit, the inheritance tax is on the right to receive certain property. Since each tax is on the *transfer* of property and not on the property itself it is not a direct tax, hence, in so far as the federal government is concerned, the rate for the entire country need only be uniform The constitutional right of the states to levy estate and inheritance taxes rests on their inherent sovereign power to tax

Estate and inheritance taxes are somewhat similar, and sometimes are made complementary; therefore, they should be considered together The gift tax is levied largely as a means to prevent evasion of estate and inheritance taxes This chapter will deal especially with the history and theory of estate and inheritance taxes and with their practices and general economic effects Certain rather technical legal aspects, especially in regard to taxation of the various types of estates, will have to be presented to explain the general bases upon which estates, inheritance and gift taxes are imposed.

Private property is an institution created and maintained by the state. Inheritance of property is not an absolute *right* — it is a *privilege* granted by the owner, or if no such provision has been made by the owner, then perhaps by the state. If there are no heirs or other beneficiaries the property of the deceased escheats to the state and later in some manner is returned to private ownership. The institution of inheritance of private property by descent

came into existence to save the state from the burden of periodic redistribution of decedent estates.

The usual method of transferring real property, whether by sale, descent or gift, is by deed. In like manner, personal property may be transferred by delivery or by bill of sale Both types of property may be held singly or jointly in fee simple or by lesser estates of inheritance, or transferred by gift, or put in trust in the hands of a trustee for a beneficiary or *cestui que trust*

History of Estate and Inheritance Taxes. The tax on the transfer of decedent estates probably originated in early Rome, although there are traces of its use in Egypt during the times of the Ptolemies. In its earliest form, the king or ruler, by virtue of his regal authority, took part or all of the estate after the death of the owner before it passed to the heirs Later a tax was imposed upon the part going to each heir or beneficiary; hence, the present graduated inheritance tax is probably a refinement of the early estate tax.

Death duties, in some form, have been used by almost every country in the world since antiquity. In England they were first introduced as stamp taxes, possibly about 1694 But, because of evasion, a new law was enacted in 1696 which fixed a special levy on the transfer of property to heirs Death duties, in their earliest form in England about 1694, were known as probate fees; in 1780, as legacy taxes; and in 1853, as succession levies.[1] At first, only personalty was included in death duties, but, in 1853, the law was extended to the transfer of real property. In 1894, a progressive rate system was introduced in the English death tax which ranged from 2 to 8 per cent The English death tax of 1946 provided for an exemption of £100, and a scale of rates ranging from one per cent on estates having a value of £500 up to 50 per cent on those of £2,000,000 The death taxes of England occupy an important place in the revenue which the government receives. In ordinary years, these taxes often furnish the English Treasury with as much as 10 per cent of the total public receipts Death taxes are levied and collected by the central government of England and are then shared with the local units

Before World War II, Germany had an inheritance tax which imposed rates from 2 to 60 per cent on all shares received by beneficiaries. Italy also had an inheritance tax with a rate spread of from one to 50 per cent, depending upon the degree of relation-

[1]Knowlton v Moore, 20 S Ct 747 (1900)

ship to the deceased and the amount of inheritance. France had and still has both estate and inheritance taxes, the rates of both being rather steeply graduated, and varying with the relationship and amount of the estate, from 2 to 40 per cent. These taxes were likewise collected by the central governments and then shared with the local units

Theory and Principles of Death Taxes. Many theories have been advanced to justify the imposition of taxes on estates and inheritances. Some are based on sound principles; others seem to be of little practical value. A few writers have suggested such bases as the cost of service principle, the various benefits and privileges which the estate enjoys under the state, and the back-tax argument to justify such imposition. But these theories are not satisfactory, because, in the first place, estate and inheritance rates are not calculated to serve these various purposes The cost of administration of an estate through the courts is charged directly against it at the time it is being probated; and the back-tax argument is based on the incongrous assumption that the owner did not pay all his just taxes while he was alive. The benefit and privilege theory is weak in that it attempts to justify a special tax on such incommensurate bases as protection, opportunity, and advantages which business enjoys under a stable government. Not a single one of these theories rests upon sufficient fact to constitute a suitable basis for the imposition of estate, inheritance, and gift taxes.

In the final analysis, a tax is imposed on estates, inheritances and gifts for practical reasons, i e., because of their special ability to pay and to furnish some revenue to the government, and perhaps for certain regulatory purposes In a certain sense, the tax on estates and inheritances does not fall upon anyone at the time of its imposition, because it is levied on the corpus as a whole or on each share while it is in suspension of transfer between the decedent and the beneficiary. These taxes are therefore not shiftable, at least immediately. The inheritance tax rate is so graduated as to become much heavier as the size of the estate increases; and also it bears with greater weight upon collateral heirs and strangers than it does upon those who receive directly. These differences are all founded upon the general principles that ability to pay increases with the size of the estate, and that distant and collateral heirs have contributed little or nothing to

the accumulation of the estate. In so far as this special class of heirs is concerned, they are receiving a "windfall," and, therefore, they can well afford to share more liberally with the government.

Mention should also be made of the so-called socialistic or diffusion-of-wealth theory of inheritance and estate taxation. Many prominent statesmen and scholars have long felt that the growth of large fortunes and the transmission of great estates by inheritance and gift should be checked, to help effect a more equitable distribution of wealth. It is contended that the politically organized community — the state — is a partner in the creation of all wealth, and, therefore, the decedent estate should be divided on some basis between the government and the heirs. This theory holds to the idea that no individual should be allowed to acquire more than a moderate independence by gift or inheritance. It is distinctly socialistic in character, and because of this fact it would doubtless be unacceptable to many people. It is opposed to the "family" idea of property and does not recognize the right of a man to provide for his direct descendants. There being no absolute right of inheritance, it seems legitimate for the state to take steps to limit the amount of property that may be distributed among heirs and to take part for its support.

Others contend that estate, inheritance, and gift taxes destroy the incentive to work and save, and that they remove capital from the necessary processes of production This argument does not seem valid because the same contention may be made against other taxes which cannot be shifted immediately, such as net income and excess profits taxes. On the other hand, it might just as well be contended that, if the state takes part of the corpus of a man's savings through taxes, he will thereby be urged to work harder and to create more.

The economic effects which may result from the taxation of estates, inheritances, and gifts need not be any different from any other taxes. In fact, since impositions on estates, inheritances, and gifts are nonrecurrent, except over relatively long periods of time, they may be expected to have a minimum economic effect

History of the Federal Estate Tax. The federal government has had a long and very complicated experience with death duties. In most cases, death duties levied by the federal government have arisen out of the exigencies of a war, and therefore may be regarded primarily as emergency taxes The first federal levy on transmis-

sion of decedent estates was passed in 1797, and took the form of a stamp tax. The maximum rate was fixed at one-half of one per cent. But due to difficulties of administration, evasion, and little yield, the law was repealed in 1802

A second attempt by the federal government to levy death duties was made in 1862, when the prosecution of the Civil War demanded additional revenue. This federal law provided for probate duties which were to be charged against the transfer of decedent estate, and for a death tax on legacies. After 1864, an additional tax was imposed on the transmission of real property

A schedule of rate graduation was first introduced in the Civil War measure. It was based on the degree of relationship that the beneficiary bore to the decedent. After the war ended and national expenditures were curtailed, these death tax laws were repealed Along with many other emergency revenue measures, by 1872 they had completely disappeared from the federal statute books. In the meantime, the constitutionality of the death duties had been sustained by the United States Supreme Court on the ground that they were excise and not capitation exactions, and therefore need not be apportioned [2] Concerning the Act of 1864, the Court in the Scholey case said

> "But it is clear that the tax or duty levied by the Act under consideration is not a direct tax within the meaning of either of these provisions Instead of that it is plainly an excise tax or duty, authorized by section eight of article one, which vests the power in Congress to lay and collect taxes, duties, imposts, and excises to pay debts and provide for the common defense and general welfare .
>
> "Whether direct taxes in the sense of the Constitution comprehend any other tax than a capitation tax and a tax on land, is a question not absolutely decided, nor is it necessary to determine it in the present case, as it is expressly decided that the term does not include the tax on income, which cannot be distinguished in principle from a succession tax such as the one involved in the present controversy "

Again, during the Spanish-American War, another inheritance tax law was imposed by Congress This levy on inheritances was limited to the transfer of personal property Its constitutionality was again sustained by the United States Supreme Court for the same reasons just stated in the Scholey v. Rew case [3] The act was repealed in 1902, when the emergency had passed, although

[2] Scholey v Rew, 23 Wall 349 (1874).
[3] Knowlton v. Moore, 20 S Ct 747 (1900).

such men as Theodore Roosevelt and Andrew Carnegie recommended that it be made a permanent part of the federal revenue system. No further attempts at the taxation of estates or inheritances by the federal government were made until 1916.

The forerunner of the present federal estate tax was the Act of September 8, 1916 The purpose of this act was to provide revenue for federal highway construction grants and for expenditures in preparation for the entrance of the United States into World War I This act authorized an exemption of $50,000 for estates of residents of the United States The rates were made progressive on all net estates in excess of the above exemption, and ranged from 1 to 10 per cent — the maximum rate applying only on estates in excess of $5,000,000

It was about that time that a storm of protest was being made by the states because the federal government was entering the field of estate taxation The chief contention was that the federal taxation of estates was a direct invasion of a field which ought to belong only to the states Although the states up to that time had realized relatively little revenue from the taxation of estates and inheritances, they felt that once the federal government entered this field they would be deprived of a large part of what income they received This controversy was partly alleviated when the Revenue Act of 1924 was passed, providing for, among other things, a credit not in excess of 25 per cent of the tax for estate, inheritance, legacy, or succession taxes paid a state, territory, or the District of Columbia This act also increased to a maximum of 40 per cent the rates which had previously been charged on all net estates in excess of $50,000 The Revenue Act of 1926 increased the specific exemption from $50,000 to $100,000, and authorized a credit of not in excess of 80 per cent for estate, inheritance, legacy, or succession taxes paid to the state The net effect of these credits has been to induce the states to model their tax laws on estates to a very large extent after that of the federal government Since the 1926 federal estates act, which is still in effect, changes in the law have been made almost annually. In 1932, a tax in addition to the tax computed at the base rates of the 1926 law was imposed, and the exemption was fixed at $60,000 In general, this additional tax is the difference between the net amounts computed at the 1926 and the 1932 rates

The 1948 amendment of the federal estate tax law provides a new "marital deduction" which permits substantial reductions

in the taxes on the transfer estates of married people. This marital deduction amounts to a maximum of half the value of the estate and is deducted from the total value of the estate in determining the amount subject to the federal estate tax. The marital deductions include especially the following.

1. Property which a husband or wife leaves outright to the other.
2. Property which a husband or wife leaves in trust to the other.
3. Property in their joint names
4. Life insurance.

The purpose of this 1948 amendment was to make some concession to noncommunity property states In such cases, if a married man takes advantage of this marital deduction the result is to cut his estate in half for tax purposes, and to make that half of his estate taxable upon the death of his wife.

Rate Structure of the Federal Act. The current federal estate taxation consists of the impositions under the Revenue Acts of 1926 and 1932, as incorporated in the 1938 Revenue Code and subsequent amendments The tax applicable to estates of decedents dying on or after February 11, 1939, consists of first, the basic tax; second, the additional tax; and third, if the decedent died after June 25, 1940, and before September 21, 1941, the defense tax Prior estate tax statutes are applicable to the estates of decedents who died before February 11, 1939. Under these acts, the rates are highly progressive and the amount of the estate is bracketed according to the tax rate

State Inheritance Tax. The federal government does not levy an inheritance tax, only an estate tax The inheritance tax therefore seems to be allocated at the present exclusively to the several states,[4] although a few states, such as Alabama, New York, and Florida do not have such a tax As early as 1687, the colony of Virginia seems to have imposed a probate duty of 200 pounds of tobacco for the settlement of all decedent estates. Pennsylvania, in 1825, was the first state to levy a comprehensive inheritance tax. The rate of the Pennsylvania tax was 2½ per cent on the value of the total estate; but the parents, surviving spouse and lineal descendants of the deceased were exempt from any levy, only certain collateral heirs were to be taxed

[4]The leading case sustaining the constitutionality of the levy of inheritance and estate taxes by the states is Magoun v. Illinois Trust and Savings Bank, 170 U S. 283 (1898)

At a very early period, heirs were classified by the state laws into direct or lineal descendants, and those that were collateral only, without blood relationship to the decedent. The constitutionality of such classification was sustained in Magoun v. Illinois Trust and Savings Bank Almost without exception, the early inheritance tax was imposed entirely on collateral heirs Many states soon followed the example of Pennsylvania after 1825 and enacted inheritance tax statutes of some kind, but the laws were either repealed by the legislatures or declared unconstitutional by the courts It was not until about 1885 when the state of New York began to tax inheritances at the flat rate of 5 per cent that effective legislation and administration by the states really began

Shortly after the turn of the present century, state taxation of inheritances began to include the entire estate, and also direct as well as collateral heirs. The rates were almost always much lower and the exemptions much higher in case of direct heirs than those on collateral heirs The principle of progressive rates was then established — it had been introduced in Ohio in 1894, but had subsequently been declared unconstitutional — also classification of heirs, usually on the basis of blood relationship to the deceased, and certain exemptions were provided. In order to avoid multiple taxation, many states agreed among themselves to levy only on that property which was actually within their respective borders, but these agreements were entirely by state compact.

As the administrative features of the inheritance and estate taxes were developed and the amount of revenue which they produced became more substantial, it seemed certain that they would be accepted as a permanent form of state revenue. At present, every state in the Union except Nevada provides for some kind of inheritance or estate tax, or both. Even Nevada once collected death duties, but its law was repealed in 1925 The amounts which the various states derive from estate and inheritance taxes are very substantial

The situation in Florida with respect to income, estate and inheritance taxes is very unusual Section 11, Article IX of the Constitution of Florida provides as follows:

> No taxes upon inheritances or upon the income of residents or citizens of this State shall be levied by the State of Florida, or under its authority . . provided, however, that the Legislature may provide for the assessment, levying and collection

> of a tax upon inheritances, or for the levying of estate taxes, not exceeding in the aggregate the amounts which may by any law of the United States be allowed to be credited against or deducted from any similar tax upon inheritances or taxes on estates assessed or levied by the United States on the same subject, but the power of the Legislature to levy such inheritance taxes, or estate taxes in this State, shall exist only so long as, and during the time, a similar tax is enforced by the United States against Florida inheritances or estates and shall only be exercised or enforced to the extent of absorbing the amount of any deduction or credit which may be permitted by the laws of the United States now existing or hereafter enacted .[5]

The constitution of the state of Florida, therefore, provides that there shall be no additional tax levied upon the estate of a decedent of the state of Florida in excess of the amount of estate tax levied by the federal government; the effect of the Florida law providing for a tax upon inheritances or estates is to absorb any amount which may be allowed as a credit upon the taxes of such estate by the United States Government, the result of which is that a resident of the state of Florida pays as a total of his estate and inheritance taxes only the amount that is levied thereon as an estate tax by the United States Government and which amount would have to be paid by such resident's estate in full even though the Florida estate tax law was not in effect. Hence, the amount of estate tax received by the state of Florida reduces the federal estate tax by an equivalent amount, and should the federal government at any time withdraw its present regulation allowing this credit to the individual states, the collection of estate taxes by the state of Florida would be abolished automatically At present, in some states, additional taxes in the nature of estate taxes are imposed to supplement the inheritance tax schedule In a few states, the estate tax is a separate and distinct tax from the inheritance tax, as in Rhode Island In other states, as in California, Michigan and Pennsylvania, the estate tax has no specific schedule but is imposed to take advantage of whatever credit is allowed under the federal law In some states, as in New York, the tax is strictly an estate tax modeled after the federal estate tax law, providing for graduated rates upon the net estate Pennsylvania and Maryland impose flat rates on the shares going to beneficiaries

[5] *Florida Statutes*, 1941, Vol. I, Section 11, Article IX, Constitution of the State of Florida

Exemptions. The federal and state laws on the taxation of estates, inheritances and gifts provide for a variety of exemptions. It is a little difficult to generalize, but the following five types of exemptions may be listed: (1) personal exemptions allowed on each individual share; (2) exemptions of a specified amount allowed on the entire estate; (3) exemptions on property on which such tax has previously been paid within a specified period of time, (4) exemptions as to charitable, religious, educational and similar institutions, and (5) exemptions as to a particular type of property, as insurance and annuities

A few states exempt specific property on which an inheritance or estate tax was paid within a certain time prior to decedent's death. The New York Estate Tax Law of 1930 contains perhaps the most liberal exemptions on bequests and gifts to the

> United States Government . for exclusive public benefit, or to any officer of a religious denomination subject to the same conditions and exemptions applicable to a religious corporation . for religious, charitable, scientific, literary, patriotic, historical, bar association, or educational purposes .

In the taxation of estates, the states differ very widely in regard to exemptions As a general rule, the exemptions are much lower in the case of estate taxation than in that of inheritance. Some states allow one exemption to each class of heirs or beneficiaries while other states require such deduction to be applied to the entire estate In a levy on an estate tax there is only one exemption deductible from the gross estate in determining the net taxable estate, whereas, in the case of inheritances, a separate exemption is ordinarily allowed to each beneficiary Some states provide that if the beneficiary is also the donor or creator of a gift made in anticipation of death it will be treated as only one transfer and only one exemption will be granted

Practically all states provide that charitable, religious, and educational institutions constitute a preferred class of beneficiaries, and they are therefore favored with special exemptions In many cases, such institutions are exempt from all forms of taxation because, it is contended, they have no special ability to pay, and also taxation would only mean requiring them to contribute an amount that the people would have to replace immediately out of a general tax fund or by gifts

As a problem of exemption among the states, there early arose the question of jurisdiction over property for taxation

purposes. As well known, two or more taxing districts may have jurisdiction over the same property for purposes of taxation, although recent United States Supreme Court decisions have about settled this problem by holding that property may only be taxed at its situs Intangible personal property was subject to taxation for inheritance and estate purposes in every state where it might be *found* Later, however, the states agreed upon a plan of "reciprocal exemption" under which Ohio, for instances, exempted from its inheritance tax the intangible personal property, under its jurisdiction, of residents of Missouri if Missouri granted Ohioans similar exemption At present, practically all states provide for reciprocity in some form or another in regard to the exemption of property subject to estate, inheritance, and gift taxation, thus settling by agreement to some extent the problem of multiple taxation

Taxation of Types of Estates. Some of the most complicated legal questions arise in regard to death taxes on the transfer of various kinds of estates. Such estates may be classified as fee simple, life, expectancy, joint, trust, dower and curtesy. Each of these estates may be taxed on its transfer by the federal and state governments under their estate, inheritance and gift tax laws The essential characteristics and legal principles of these various estates upon which such transfer taxes are imposed will be discussed briefly

In most cases, a transfer by will or testamentary creates the oldest type of taxable inheritance and estate — fee simple. The transfer also includes other actual estates which a person owns at the time of his death For example, the Indiana law defines a transfer as follows: "The word 'transfer,' as used in this act shall be taken to include the passing of property (title) or any interest therein, in possession or enjoyment, present, or future, by inheritance, descent, device, bequest, grant, bargain, sale or gift, in the manner herein described, or the exercise of the right of survivorship in cases of joint ownership "

But the transfer of lesser estates than fee simple are also included under the federal and state laws of inheritance, gift and estate taxes. Estates in expectancy are taxed under the statutory provisions in several states. The provision in the Illinois law in regard to taxation of property transfers is as follows: "A tax

shall be and is hereby imposed upon the transfer of any property . . . where any such person, institution or corporation becomes beneficially entitled in possession or expectancy to any property or income therefrom . . ."

Estates of dower and curtesy come into existence at the death of the husband or wife, but unless they are so designated by statute, they are seldom included under the inheritance and estate tax laws. There has been a sharp conflict among lawyers and economists as to the advisibility of subjecting or exempting estates of dower and curtesy to taxation. In some states, as in Tennessee, there has been a tendency to subject these estates to taxation.

The federal laws respecting the taxation of estates include dower and curtesy as a part of the taxable estate In other words, dower and curtesy are not exemptions which may be deducted to determine the net taxable estate [6]

Taxation of Transfers in Anticipation of Death. All states levy some form of inheritance or estate tax, or both, on transfers of property to beneficiaries which have been made during the life of the deceased under such circumstances as may be in contemplation of his death Taxable transfers during the life of the decedent are usually divided into two major classes. One is known as a transfer of property in contemplation of death, and the other is intended to take effect at, or after, death.

A transfer is made in contemplation of death when its expectation in the reasonably near future is the impelling motive If any other motive is established, the transfer of such property is usually exempt from the estate, gift, or inheritance tax Speaking on this subject, the United States Supreme Court has this to say: "The words 'in contemplation of death' mean that the thought of death is the impelling cause of the transfer, and while the belief in the imminence of death may afford convincing evidence, the statute is not to be limited by a rule of construction which in place of contemplation of death makes the final criterion to be an apprehension that death is near at hand."

Under the present federal estate tax act, the following classes of transfers of property made by the decedent prior to his death are subject to the tax and therefore must be included in the gross estate (1) transfers in contemplation of death, (2) transfers to

[6]See Section 302(b) *Federal Revenue Act of 1934*

the extent that title remained in the decedent at the time of his death and the passing was conditioned upon his death; (3) transfers under which the decedent reserved or retained the use, possession, rents, or other income or enjoyment of the transferred property, for his life, or for a period of such duration as to evidence an intention that it should extend to his death; (4) transfers under which the decedent retained the right, either alone or in conjunction with another person or persons, to designate who should possess or enjoy the property or its income; and (5) transfers under which the enjoyment of the transferred property was subject at decedent's death to a change through the exercise, either by his will alone or in conjunction with another person or persons, of a power to alter, amend, revoke or terminate

Taxation of Joint Estates. The taxation of the transfer of estates which are held jointly as joint tenants with rights of survivorship are of fairly recent development There are three broad classes to be considered: (1) joint estates; (2) tenancy by the entirety, and (3) community property The theory upon which the taxation of the transfer of such property is justified is that, while the vesting of the entire estate by right of survivorship is not strictly an inheritance or succession, nevertheless the death of the decedent ordinarily makes the survivor the sole owner

There are now some twenty-eight states, as well as the federal government, which tax joint estates. Many states make no provisions for the taxation of joint estates, and hence such successions usually escape taxation In a few states, as in Michigan and South Dakota, the taxing authorities impose a levy on the transfer of joint estates on general principles without the usual statutory authority Joint bank accounts have the characteristics of joint ownership, and they may therefore be taxed under statutes which impose inheritance and estate taxes on joint estates.

In the case of tenancy in common with right of inheritance, the state statutes usually provide that the property shall be divided into equal parts and each part subjected to a separate tax In other states, as in New Jersey, the statute provides that the entire joint estate shall be subject to tax, when one of the holders dies, except to the extent to which it can be shown that it was originally owned by the surviving tenant. In North Carolina, as to tenancy by the entirety, a presumption exists that each contributed one-half toward the estate, in the absence of proof to the contrary

In states having the community property system, one-half of such estate is taxable on the death of either spouse.[7]

The provisions of the federal estate tax law extend to joint ownership of property wherein the right of survivorship exists, regardless of when such estate was created. This federal statute specifically reaches property which is held jointly by the decedent and any other person or persons. While the entire joint property is part of the decedent's gross estate, yet it is the intent of the federal statute to include only that which belonged to the decedent. In the absence of proof to the contrary, each joint tenant will be presumed to have contributed his aliquot part in the accumulation of the estate, and the survivor will not be taxed on his own personal contributions

Taxation of Life Insurance. There is considerable doubt in the minds of legislators about the advisability of taxing life insurance when it is paid to beneficiaries upon the death of the insured There is a strong sentiment against levying either an estate or inheritance tax against insurance, chiefly on the ground that it is a form of savings for times of distress and a means by which a man may provide for the needs of his family after his demise, and, for these reasons, the law makers have shown great reluctance to impose such levies

In life insurance, there are two distinct kinds of policies: (1) insurance which is directly payable only to the estate of the insured; and (2) insurance which is payable only to a specified person as beneficiary The first type of insurance, which is to be paid only to the estate, is generally taxable in all states, either as a matter of administrative practice or by reason of favorable court decisions, and it may now be regarded as established law that, in the absence of an excluding statute, such insurance is properly and justifiably taxable.

As to the taxation of the second type of insurance, payable only to a specified beneficiary, there does not seem to be any established policy among the states The federal estate tax law provides for the inclusion in the gross estate of insurance which has been taken out by the decedent upon his own life, as follows: (a) all insurance which is received by, or for the benefit of, the estate; and (b) all other insurance payable to beneficiaries other

[7]For further definition and discussion of taxation of community property, see page 594 and footnote on page 595 in this text

than estate The provision of this federal act which required the inclusion in the gross estate of all insurance receivable by the executor, without any exemption, applies to policies made payable to the decedent's estate, or his executor or administrator, and all insurance which is in fact receivable by, or for the benefit of, the estate. The statute also requires the inclusion in the gross estate of the proceeds of any policy, or policies, which are not receivable for the benefit of decedent's estate.

Valuation for Tax Purposes. The valuation of an estate for inheritance and estate taxation means value in exchange, that is, the worth of the property in terms of purchasing power, as determined on the market. From the economic point of view, value of property means its actual worth in dollars and cents as determined at an open sale The question has arisen as to the difference that might arise when federal officials set one valuation on property for federal estate tax purposes, whole the state officials may set another valuation under the state inheritance tax laws. Many states provide that where the valuation of an estate is finally determined for federal estate tax purposes at a higher figure than the state appraisal, the higher value shall be used in computing the state inheritance tax.

In the case of real estate, its value for purposes of inheritance and estate taxation is usually established by expert appraisal. In arriving at such valuation, the income of this real property is an important, although not the sole, factor.

Another class of property that must be evaluated for estate and inheritance tax purposes is that class which includes all kinds of securities and commercial paper. Securities are usually divided into those that have a market and those that are held closely, or those that are not bought and sold freely in an open market. Where stocks and bonds have a market, their valuation can ordinarily be established without difficulty, particularly where they are listed on a stock exchange The Federal Estate Tax Department applies the rule that the value of stocks and bonds which are listed upon an exchange shall be obtained by taking the mean between the highest and lowest quoted selling price upon the date of valuation. If there were no sales on the date of valuation, the value shall be determined by taking the mean between the highest and lowest sales upon the nearest date, either before or after date of valuation, if within a reasonable time.

There are no criteria for evaluating stocks and bonds that are closely held, except by capitalization of the net earnings of the issuing company, by comparison with securities that are similarly situated, by accounting methods, and by the exercise of good judgment. The Federal Estate Tax Department applies the rule that, in case the value of a security cannot be determined by sales, or from bid and asked prices, the value of corporate bonds is to be ascertained by giving consideration to their soundness of the security, their interest yield, the date of maturity, and other relevant factors, and, in the case of shares of stock, upon the basis of the company's net worth, earning power, dividend-paying capacity, and all other factors which might be of use.

Rather technical and complicated methods have been devised for the evaluation of stocks by certain states. In addition to the book value and the actual value of the tangible assets, such intangible items as goodwill must be taken into consideration While many different methods have been in use, three are worthy of special consideration. The first is the New York or New Jersey method, under which a fair rate, usually 6 per cent, is allowed on the net worth of the business, that is, the capital and surplus, as of the date of decedent's death. This rate is then deducted from the average net profit which is based on a period of from three to five years If there is an excess over such fair rate, it is then multiplied, generally by a multiple of three, although five or more may be used, and this resulting figure is called the goodwill, and is added as a separate item to the value of the stock as determined by the book value of the capital and surplus.

The second method is the one used by the federal tax departments This method has been used rather liberally in determining valuations for income tax assessments In this method, which is very similar to the one now in use in New Jersey, a given rate is allowed on the net taxable assets, usually 8 per cent, and the remaining average net profits are capitalized at 10, 15, or 20 per cent for purposes of establishing the value of the intangible assets; and the two amounts when added together are considered as the total value of the stock.

In computing the gross estate of the deceased under the Federal Estate Tax Act, other forms of property, such as interest in a business, whether as partner or proprietor, promissory notes, secured or unsecured, cash on hand or on deposit, household and personal

effects, must be carefully itemized and evaluated. The act also requires that annuities, life, remainder, and reversionary interests be evaluated and that they be included in the gross estate for estate taxation purposes. The taxation of a few of these special estates will be briefly considered.

Valuation of Other Types of Estates. The valuation of certain other property interests for inheritance and estate taxes, such as those that may or may not actually come into the possession of the heirs, has always given great difficulty. Under some state laws, the tax on the whole estate is held in suspension until the various interests finally pass into the possession of the heirs. Other states provide for a tax at the minimum rate with a further proviso that in case the interest passes to persons who are taxable at a higher rate, then the additional payment shall be made when the heirs actually take possession.

A life interest differs from a life annuity in that the former may be of varying value and payable at different intervals, according to the productiveness of the principal or the use to which it is put, while the life annuity is usually of a definite amount payable in cash at stated periods. The life insurance tables of mortality are used to determine the value of annuities and life interests.

A vested remainder is a distant interest in certain property, and is taxable separately. The present value of the vested remainder is the entire property less the life interest, which is usually ascertained by the aid of mortality tables

The taxation of these special property interests, as inheritances, is comparatively new and there is no uniform fiscal policy yet established. The recent pressure for additional revenue by the governments largely explains why these sources of income have been added to the category of taxation. Their total yield is not large. Their justifications may be based upon the fact that the heir is receiving a windfall and should divide with the state.

The Gift Tax. The gift tax was enacted to prevent the evasion of the estate and inheritance taxes. Since estate and inheritance taxes are not collectable until after the death of the decedent, it is obviously quite possible for the property to escape these levies by being transferred to the beneficiary during the life of the owner. Gift taxes have therefore been inposed by the federal government and a few states in order to prevent the evasion of all death taxes.

While the gift tax has received special attention during the last few years, it was first used in this country during the Civil War when a succession tax was imposed on gifts of real property The first federal law to tax all gifts was enacted in 1924; but it was repealed two years later. The federal government did not return to a tax on gifts until in 1932 when the law of 1924 was finally substantially re-enacted in order to produce additional revenue and to catch property which was escaping the inheritance and estate taxes by being transferred to beneficiaries during the life of the owner. Except for a slight revision of rates, which are now fixed at three-fourths of the estate schedules for all brackets, no changes were made in the gift tax law, until the Revenue Act of 1940 which provided that the amount computed for the years 1941 to 1945 according to the old rate schedule should be increased by 10 per cent

A few states have followed the example of the federal government and enacted gift tax laws Canada also imposes a tax on gifts, at graduated rates, which range from 2 per cent on gifts in excess of $4,000, and not more than $25,000, to 10 per cent on amounts in excess of $1,000,000.

The constitutionality of the gift tax has been before the United States Supreme Court and has been sustained on the ground that it was an excise upon the transfer of property and therefore need not be apportioned The Supreme Court also held that it was a reasonable levy on property and therefore it did not violate the Fifth Amendment [8]

The federal gift tax is applicable to all forms of property It applies if the transfer is in trust, either direct or indirect, and if the property is real or personal, tangible or intangible. The 1932 law, unlike the Act of 1924, imposes the tax only upon gifts of individuals, and not upon those made by corporations, trusts, and estates In the case of nonresidents, the statute applies to the transfer only when the property is situated within the United States On the other hand, if the doner is a citizen of the United States, the federal gift tax applies regardless of where the property is situated The federal statute does not impose the tax upon the property, but only upon the transfer. The tax is not imposed upon the receipt of the property by the donee, nor is it necessarily determined by the measure of enrichment resulting to the donee

[8]Bromley v. McCaughn, 50 S Ct 46 (1929).

from the transfer. On the contrary, the tax is regarded as a personal liability of the donor.

The question has been raised as to what constitutes a taxable gift *inter vivos* within this statute. According to regulations which are issued by the United States Treasury, a forgiveness of indebtedness constitutes a gift when the creditor cancels without consideration the debt of a solvent debtor In case of joint estates, such as joint bank accounts, which have been created by funds furnished by the husband, there is a gift tax on the value of the wife's acquired interest in the property It has also been held that where a donor has conveyed cash and other property to a charitable institution under an agreement that annuities shall be paid him for life such transfer is not taxable under the gift tax law But if after the donor's death these annuities are to be paid to his widow during her natural life their present worth at the time of the transfer to the institutions constitutes a taxable gift. The federal law also provides that the tax applies to transfers in trusts, as well as to outright gifts

The schedule of rates of the federal gift tax is progressive, and the rates are uniformly three-fourths of those which apply on the taxation of estates. The deductions which are allowed under the federal gift tax law are quite complicated and can best be treated under a separate section The tax is computed upon the net amount of the gift.

Deductions Under the Federal Gift Tax Law. Deductions allowed under the federal gift tax law are of special interest because of their importance to bequests to private, eleemosynary institutions

The federal Act of 1940 provides that in computing the net gift tax for any calendar year there shall be allowed as deductions. (1) in the case of a citizen or resident of the United States an exemption of the flat sum of $30,000 Furthermore, a gift of $3,000 or less to any one person is excluded from consideration and does not even have to be reported as a gift For example, a man with five childern could give them a total of $45,000 in a single year without being subject to a gift tax $30,000 is the flat exemption, and an additional $3,000 for each of the five donees does not have to be reported. This specific exemption does not extend to nonresident aliens. Also, (2) the amount of all gifts made during such year to or for the use of: (a) The United States,

any state, territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes; (b) a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation; (c) a fraternal society, order, or association, operating under the lodge system, but only if such gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children and animals; (d) posts or organizations of war veterans, or auxiliary units or societies of any such posts or organizations, if such posts, organizations, units or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual

The obvious effect of such deductions is to encourage the wealthy to make gifts for such public purposes. They are thereby enabled to distribute their estate during life without the impositions of taxes.

Income Tax on Estates and Trusts. The net income of an estate or trust is taxed as if it were the income of a single individual An estate or trust is subject to both the normal tax and the surtax It is also subject to the capital gains and losses limitation. An estate is entitled to one $600 exemption whereas a trust is allowed a $100 exemption.

Summary. Death duties, or those imposts commonly called estate and inheritance taxes, have had a long and checkered history

The distinction between estate and inheritance taxes is more technical than real In general, the estate tax is computed upon the corpus as a whole while it is still in probate in the hands of the executor or administrator The inheritance tax is levied upon the individual shares as they pass to the heirs

The taxation of estates and inheritances has recently become of considerable importance among about all grades of government

The most logical reasons that can be given for tapping such sources of income is their ability to pay and the government's need for revenue.

The tax is borne by the beneficiary, since he receives just that much less, but it is not shifted further. If it is wise to effect and maintain a better distribution of wealth, and to limit the size of inheritances generally, the state can act most opportunely at the time when the property descends to the heirs and beneficiaries.

A decedent might have any estate of inheritance in property which ranges from fee simple to any of the many lesser forms The problem of evaluation of these various estates for the levy of death duties therefore becomes extremely complex and involved.

The gift tax is imposed to prevent the circumvention of estate and inheritance taxes by the owner in giving his property away during life. The federal gift rates are uniformly three-fourths of the estate tax schedules

TEXT QUESTIONS

1. What is the technical distinction between inheritance and estate taxes?
2. Are inheritance and estate taxes direct or indirect, and why? What difference does it make whether they are direct or indirect?
3. Why the gift tax? Is it direct or indirect? Who is the cestui que trust?
4. Upon what bases can the taxation of inheritances, estates, and gifts be justified?
5. Why did the taxation of inheritances, estates, and gifts by the federal government develop so slowly? Was it for constitutional reasons?
6. What were the principal provisions in the Federal Estate Acts of 1916 and 1924?
7. What were the principal provisions of the 1948 Amendment of the federal estate tax law? To what extent was it dictated by community property?
8. What is the rate structure of the present federal estate tax law?
9. Are there any constitutional limitations of the right of states to levy inheritance, estate, and gift taxes?
10. What are the principal exemptions and deductions allowed by the federal and state governments in the taxation of inheritances and estates?
11. What are the principal types of estates and what are their legal characteristics?
12. How is each of these types of estates treated under the present federal estate tax law?

13. How does the present federal estate tax law treat the transfer of lesser estates? How does it treat the transfer of curtesy and dower estates?
14. Does the federal government tax estates transfered in contemplation of death?
15. What are the principal joint estates, and how does the present federal estate tax law treat each of these joint estates?
16. What are the principal problems in the taxation of the transfer of life insurance?
17. What are the principal methods of evaluating property for inheritance and estate taxation?
18. How does the present federal tax law treat gifts? What deductions and exemptions does it allow?
19. How does the federal tax law treat income on trusts and estates? Against whom is such tax levied?
20. What is the rate structure on incomes of estates and trusts?

RESEARCH TOPICS

1. Make a study to the extent to which your state levies a tax on the transfer of estates, inheritances and gifts. Note especially the yield, the exemptions and deductions, the rate structures in each case, and any litigation you can report.
2. Visit the trust department of a large bank in your community and make a study of the various taxes imposed in the settlement of a decedent estate. Select one or more estates in trust and analyze the types of taxes which fall upon it.
3. One of the most important aspects of estate management today is so to arrange the descent that the various taxes will fall without undue hardship on the heirs. The following three examples are typical.*

   CASE I. Mr. X had an estate of $300,000, his wife having no separate estate. These are a few typical questions.

   A. Suppose that he left the entire estate to his wife outright and took full marital deductions at his death. What would be the taxes at his death? What would be the tax upon the subsequent death of his wife?
   B. Suppose, instead, he leaves all his estate in trust for his wife without power of appointment to dispose of it at her death. What would the tax be upon his death?
   C. Suppose he leaves all the estate in trust for his wife, provides that the income is to be payable to her for life, with right to dispose of half of it at her death? What would the tax be at his death? At her death?

*These cases were actually handled by the Trust Department of the St. Louis Union Trust Company. Only the names of the parties have been omitted.

CASE II Mr Y. has an estate of $120,000 which he wishes to leave outright to his wife. Consider the tax under the 1948 federal tax law.

A What will the tax be on the estate at his death? What will it be upon the subsequent death of his wife?

B Suppose, instead, he was to leave only half of his estate to his wife outright, and the other half in trust for her. Or suppose he left all in trust to her with power of appointment to dispose of half at her death by will What would be the tax upon his death? Upon her death?

CASE III Mr. Z has an estate of $300,000 He has a wife, a daughter and grandchildren, none of whom has any property of their own What are the taxes upon the husband's death, upon the wife's death, upon the daughter's death under the following plans.

PLAN I. Assume that the husband leaves his estate outright to his wife, she in turn to her daughter, and the daughter leaves it to her children.

PLAN II. Assume that the husband leaves his estate in trust for the lite of his wife, then in trust for the life of his daughter and upon her death to his grandchildren

PLAN III This plan is the same as PLAN II except his wife is given an unrestricted power of appointment to dispose of one-half of her husband's estate.

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CHAPTER 26

ADMINISTRATIVE AND NON-TAX REVENUES

While taxation yields the greater part of governmental revenue, there are many other sources of income which produce substantial sums Governments may obtain revenue from such non-tax sources as public domain, the operation of public industries, and administrative income from fines, fees, licenses, special assessments, and excess condemnation.

While the public domain, as a source of revenue, has almost disappeared, it does deserve some consideration in a general treatise on public finance Within the last few years, the operation of industrial establishments by governments has made rapid strides, although the volume of net revenue to be expected from such source may not be great, especially in the United States. Along with the execution of certain administrative functions, governments often derive considerable income from such sources as the imposition of fines, under the police power, for infraction of the law, the charging of a fee or price for public service rendered — that is to say, a kind of contractual revenue; income from licenses for the legal privilege of operating a business or profession, and the levy of a special assessment, in which case the property owner is supposed to derive a net benefit from some public improvement. Excess condemnation levy is usually incidental to special assessment Governments are frequently the beneficiaries of gratuitous funds — real and personal property in various forms — which are usually considered under the general heading of public gifts Some of the administrative revenues, such as fees, licenses, rates and prices charged for public service shade into each other to such extent that in most cases no clear-cut distinctions can be drawn among them.[1] The administrative revenues differ in degree of compulsion and in procedure in use, but in every case they can be employed legally only where there is a public benefit involved

Public Domain. The question of public domain goes back to the days of feudalism, or earlier, when the king owned in fee simple all the land of his realm Part of this land was let out on lease to his subjects, who paid feudal dues for its use, part of this domain

[1]Seligman, E R A, *Essays in Taxation*, Tenth Edition, 1928, p 400 ff

was converted into forests and game preserves for royal hunting grounds and for recreation, the remainder was cultivated by the king for the support of himself and of his household; this was expected to provide all his necessary revenue At one time various countries owned vast public domains from which considerable revenue was derived. Germany owned the Black Forest, Russia held vast areas of mines in Siberia; India owned thousands of square miles of forest and agricultural lands But this land has now been at least partly transferred to private owners

When the federal government was organized in 1789, it acquired a huge public domain by cession from the thirteen original states. There was a vast hinterland which all the states claimed; this controversy was finally settled by transferring it to the control of the central government Later, the domanial territory of the federal government was greatly augmented by the Louisiana Purchase of 1803, acquisition of Florida in 1819, addition of the Oregon Territory in 1846, the Mexican Cession in 1846, and the Gadsden Purchase in 1853, and such foreign possessions as the Philippines, Alaska, and Hawaii

There has always been a question as to what to do with the public domain Many statesmen have contended that it should be transferred to private ownership as soon as possible because the state is not a competent landlord, and because they believe that the gain would be far greater if the land was managed by individuals On the other hand, there are those who contend that the state should retain the domanial lands as a future source of independent income, adding thereby an element to the public credit. However, the general tendency among all present governments is to transfer all agricultural lands to private hands, and to retain only such domain as is necessary for the conduct of public affairs In general, agriculture operates under the law of decreasing returns because of increasing unit cost, and such business does not lend itself to large scale operation by the state, although at present, because of the introduction of machinery, there are many farms being operated advantageously on a large scale

Various methods of disposing of the public lands have been used. In the United States, a policy of transfer to individuals as rapidly as possible has always been favored. At times, in the United States and Canada, millions of acres have been given to ex-soldiers as compensation for military service. Large tracts of

land were donated to the railroads and canals, and other forms of internal improvements The educational systems of many states were virtually established, and for some years, partly maintained by grants from the public domain Millions of acres were also given away under the Homestead Act of 1862

As a net source of revenue, except in the earliest years of the government, the domain was of little importance As a rule, the costs of administration, including survey, policing, extinguishment of Indian claims, and maintenance of land offices, absorbed most of the income Indirectly, however, government income was increased by the free and rapid disposal of its domain because development of this land enriched individuals and the nation, thereby supplying increasingly greater income for the support of government

Part of this public land is still held by the states, while some has been sold and the proceeds either retained as an endowment, or used to liquidate debts and to defray current expenses The federal government has recently been coming into possession of vast tracts of agricultural land by reclamation, and also through foreclosure under the Land Bank Loan System

Taxation of Natural Resources. The taxation of natural resources has always presented a problem The chief purpose of levy is not revenue. Some natural resources, such as forests, are reproducible, while others, like minerals and oil, are not Taxes should be so levied principally as to encourage the conservation of these necessary raw materials Of course, either by direct government ownership or by some kind of statutory control, the police power of the state can always be used to conserve a natural resource. Finland and Sweden are excellent examples of countries which have recently acquired title to a substantial share of their forests and iron ore deposits for the purpose of conservation of forests by a preferential system of taxation In some cases, forest lands have been exempt, notably when the timber is yet growing In such instances, local taxes are usually supplemented with state aid to compensate for this loss in revenue. The general property tax should not be applied to growing forests because the owner is then compelled to pay before any return has begun to be realized This tax is particularly burdensome and inequitable because the owner is compelled to pay currently upon remote values After

a forest is once started, no return may be expected on the investment for several years. Forests also involve some risk, which, under the general property tax, is almost entirely assumed by the owner. It is also said that the imposition of a tax on growing trees encourages premature cutting because the owner must begin to realize on his investment as soon as possible in order that he may meet these tax costs.

Many states have put forest property in a separate class for taxation. They give it special treatment, which is more adapted to its particular characteristics Wisconsin, for example, enacted a forest crop law which combines a yield tax with an annual levy upon this type of property The application of this law to forest land is entirely optional with the owner. The owner makes application for the privileges which are afforded under this law Once his land is listed, the owner pays ten cents an acre to the local government. The state matches this levy with an equal sum The yield tax, all of which goes to the state, consists of 10 per cent of the products harvested from privately owned forest lands, and 50 per cent of that taken from county-owned land All this special law tax is in lieu of the collection of a general property tax on forest lands, which would otherwise be imposed

The land owner in Wisconsin, in order that he may take advantage of this special tax privilege, must make assurances that he can and will grow a forest in lots of at least forty acres In addition he promises that, in a reasonable manner, he will practice the rules of forestry In case the land is withdrawn from exemption, either by the owner or by the State Conservation Commission, the general property tax will apply retroactively from the date when it was so listed The law is intended to restore the timber resources of the state by increasing local interest in forestry, by providing a more scientific care of forests, and by encouraging better rural planning of land uses

This crop yield tax law, as it prevails in Wisconsin, has been severely criticised by many authorities It is contended that it will retard, rather than encourage, the development of forestry; that the entire policy of timber conservation is founded upon the wrong basis, because forests should be owned and managed only by the state Many taxpayers associations of the state, therefore, oppose the 'yield' tax, and recommend either an adjusted property tax or a partial exemption of all lands devoted to forestation

Any type of annual property tax on forest land is inequitable inasmuch as it must be based upon future earnings which may not actually accrue for a lifetime At present, most states have special statutory provisions with respect to the taxation of forest lands In many cases, trees are entirely exempt from tax for a certain number of years Other states have an exemption in addition to a yield tax In conclusion, it might be said that forest lands must be put into a separate class for taxation purposes, and that a general property tax on current annual values is scarcely equitable, a severance tax would be much better As yet, among the states, there is no substantial uniformity of taxation of forest lands.

In spite of contentions to the contrary, there seems to be no good reason why mines and oil wells should be entirely exempt from taxation Their products are different from those of the forest in that they are non-reproducible and that the supply of their materials slowly disappears Mines and oil wells should therefore be put in a separate class for purposes of taxation The basis upon which the levy is made should be reduced gradually as they become exhausted It is urged by many that mines and oil wells are gifts of nature and that, because they represent disappearing assets, they should be subjected to heavier taxation for purposes of conservation In Minnesota, iron mines are subjected to a heavy rate of assessment under a classified property tax They are sometimes required also to pay a severance tax

Just what effect a tax may have upon the exploitation of such natural resources as minerals and oils will depend entirely upon the form of levy that is imposed It also depends upon whether the tax is levied on surplus production or on cost of operation It is common knowledge that a tax imposed upon mere ownership of non-reproducible gifts of nature has a different effect from one levied on their exploitation Mines and oil wells have a net value, the existence of which can hardly be prevented by any degree of taxation short of confiscation

This circumstance suggests the incidence of a tax when imposed upon the net value of such non-reproducible goods as minerals and oil, which are produced only under a cost of production process The effect might be comparable to a tax on the economic rent of land. It is not shifted, at least not immediately But it is sometimes claimed that if a tax is levied by a state upon some natural resource it can be shifted to the foreign buyer by forcing him to

pay higher prices If the state has a monopoly on a particular resource, and if it is one of inelastic demand, the tax can be shifted But a tax on net surplus will rest on the owner, while a levy on gross production, or on tonnage, will enter into the cost of production and may be shifted to consumers In 1921 the British government placed a tax on the exportation of crude rubber from the Malay states. The purpose was to curtail over-production, and to increase the price of crude rubber in world markets. The plan was temporarily successful because of the monopoly position which England had over the production of rubber The increase in prices that American manufacturers subsequently paid was attributed largely to the action of the British government. The entire scheme was later abandoned because of political complications with the United States

Various types of taxes may be imposed upon mines -- the most common is the ad valorem levy It is an adaption of the general property tax, and it is based upon an evaluation of the entire mineral deposit in the mine The chief difficulty with this tax is its administration, because it is not easy to evaluate any type of mineral deposit Among other factors, evaluation depends upon the thickness of the veins, the quality of metals, the accessibility and cost of production Recourse must often be had to test borings to ascertain the extent and quality of the deposits Thus, the proper assessment of mining property is a task which can be done only by a state tax commission, although in a few instances this important function is still left to the local tax assessor

Besides, and in lieu of, the ad valorem tax, various other types of levies are imposed on mines, such as certain forms of income and production taxes, occupational, and classified tonnage taxes Most of these special taxes are fairly easy to administer because the base upon which the levy is made is simpler They may be expected to yield considerable revenue in the future

In many respects, the taxation of forests and of mines presents entirely different problems Forests do not yield a return to their owners for many years after they are planted, while mines begin to produce as soon as opened For this reason, their taxation must be put on different bases Thus, forests should either be exempt or, during non-productive years, be taxed very lightly. Mines and oil wells, on the other hand, may be able to sustain the heaviest levies during the early period of operation, with a gradual reduction of

the base as they become exhausted The future production of oil wells is even more uncertain than that of mines, therefore, they present problems of evaluation which are not found with any other kind of taxable property.

Severance Taxes. Many states impose severance taxes when certain natural resources, such as minerals, timber, and oils are removed from their soil. Such levies are, therefore, in the nature of taxes on gross sales or gross product, and are imposed under the police power of the state largely in the interest of conservation, although in a few instances, as in Texas and Oklahoma, substantial revenue has been received They tend to discourage removal and exploitation until such products are ready for the market In most instances, severance taxes are imposed in lieu of the general property tax because of the latter's tendency to promote wasteful exploitation of natural resources A few states have taken the attitude that the removal of these natural resources is impoverishing the public patrimony of the state, and they have imposed certain "compensatory" levies in addition to the regular property and business taxes But such double levy hardly seems just and equitable To be fully equitable, the severance tax should be in place of, rather than in addition to, other taxes imposed on these natural resources The severance tax is very fair and just because its collection can be made to coincide with the realization of the income, thus conforming to the canons of taxation

State Industries. Of late, governments have entered the industrial field chiefly for two reasons first, to secure additional income, and second, to regulate private enterprise This latter purpose has been the object of considerable expenditures Federal, state, and local governments, especially the cities, have made heavy capital investments in the fields of all kinds of public and private enterprises The dominant motive is service to the community

The extent to which governments may become interested in the ownership and operation of industrial enterprises will depend upon the social theory of the people respecting the functions of the state. If the background of the community is socialistic, then much service may be expected of government. Under such circumstances, state ownership of all processes of production may be expected to be developed on a large scale On the other

hand, if the idea of individualism and private property generally prevails, the people may insist on conducting most enterprises as private affairs. Therefore, the extent of government ownership and operation will depend upon the social background of the people, or sometimes upon those in charge of the affairs of state.

The general necessity for public ownership and operation may depend also upon certain practical conditions State or local units may be the only agencies that can furnish the individual with certain necessaries and conveniences of life Again, the low state of individual initiative may thrust these obligations upon government. In years past, the pressure for internal improvements was great. This condition thrusts an added responsibility upon government Without state aid, it is hardly possible that some of the railroads would have been built, at least as rapidly as they were. The United States Government finally completed the Panama canal after several private corporations and individuals and at least one European power had failed in the attempt Certain western states have formed compacts, with the consent of Congress, to build and operate reclamation projects, which could only be accomplished by group action, or in cooperation with the federal government

State ownership and operation of certain industrial enterprises is sometimes considered necessary to prevent, or to regulate, monopoly The French government manufactures and retails almost all tobacco products consumed within the country Considerable public revenue is derived by the French government from this business At one time or another, most European countries have controlled certain commodities, such as salt in Italy, matches in Hungary and Japan, and vodka in Russia Britain has nationalized coal mines, power production, transmission of intelligence, and the Bank of England Public ownership and operation of industry has not yet developed to any great extent in the United States. The most outstanding example of federal enterprise is that of the Tennessee Valley Authority, which sells electric energy to individuals and corporations Local units, chiefly cities, own and operate such utilities as water, electric, and gas plants A few cities commercialize and derive considerable profit from the operation of abbatoirs, sewage disposal plants, and public markets

For the purpose of conservation of natural resources, government ownership and operation of mines, oil fields, and forests have

been developed. Considerable expenditures have been made for these purposes of conservation. The first constructive attempt to conserve and replace the forests was during the Theodore Roosevelt administration when great areas in the West were nationalized. At government expense, the science of forestry was practiced, a forest ranger system was organized, tree diseases were studied, and cutting and replanting were regulated. Forest conservation also meant the prevention of excessive soil erosion and floods, better distribution of rainfall, a more equitable climate, and a sanctuary for wild life. The federal government has recently provided out of public funds for emergency conservation work which is organized chiefly for the purpose of reforestation. Millions of acres were planted in trees by the CCC workers.

While the exhaustion of American coal deposits seems to be in the indefinite future, yet, to prevent waste in mining, and also to handle certain labor problems, the federal government has established a coal commission in the Department of Interior. The Resettlement Administration was given the task of moving the surplus miners to other regions where they were able to find employment of some kind to support themselves.

Perhaps the time when oil wells will cease to flow is not far in the future. Many very drastic measures are now being taken both by the federal and state governments to curtail output and to conserve the supply. Oklahoma has placed a restriction on the amount of oil that may be taken from any well over a specified period of time. A few years ago, a conference was called by the governors from all the oil-producing states in the Middle West, which resulted in establishing a quota system of production. When the National Industrial Recovery Act was passed, the President was authorized to prohibit transportation of petroleum and its products in interstate or foreign commerce, if produced or withdrawn from storage in excess of the maximum allowed under state restrictions. This provision, however, was declared unconstitutional by the United States Supreme Court.[2] By act of Congress, the Secretary of Interior has been given the authority to promulgate rules and regulations for the production and shipment of petroleum and its products in interstate commerce.

Because of military and political strategy, it is often necessary that the government own and operate certain industries. The

[2]Panama Refining Co. v. Ryan, 55 S. Ct. 241 (1935).

federal government made large expenditures for the development of the Muscle Shoals project as a source of nitrates in case of war Most European countries either have nationalized, or may in case of any emergency nationalize, coal and iron mines and manufacturing establishments within their borders

The public welfare also requires that the government own and control certain lines of industry. The public health demands that serums, anti-toxins and vaccines be made available at all times at low or no cost to those who need them, which may mean that the state should assume primary responsibility for the supply of these preventive drugs. State and city governments often operate abbatoirs, water works, markets, and sewage disposal plants because of their bearing upon public health. The tendency at present is for governments more and more to enter the fields of private industry and to reduce certain plants to ownership and control in the interest of the public

Fiscal Motives of State Operation. The motives of the state in owning and operating industries may be financial profit or social benefit The state may therefore operate a business and sell its goods and services under the following conditions:

First, the state may attempt to secure the highest net return by charging for the commodity or service what the traffic will bear In this case, the state acts as a monopolist and fixes the supply of commodities at the point of maximum net return Commodities or services that are in the luxury class may come in this category Here the dominant motive is maximum revenue; social benefit is more or less secondary The tobacco industry of France and the sale of distilled liquor by the government of Russia are examples where they have been treated as monopolies and are operated in such manner as to yield the greatest net profit.

Second, the state may not attempt to make a monopoly profit out of the operation of its public industries, at least certain of them. Under such conditions, the state acts as one of a group of competitors, and fixes the price of its commodities and services at unit cost of production Only that commodity or service should therefore be chosen which falls into the general class of necessities with inelastic demand. Water is such a commodity If the municipality operates the water plant, the rate is fixed at or near the unit cost of production Water is one of the absolute necessities to life and therefore one of the commodities of relatively inelastic

demand. Because of this fact, it should be made available in unlimited quantities on as reasonable basis as possible

The third financial basis of state operation of public industry is the charge of a fee to the consumer for services and products which is usually insufficient to cover unit costs of operation The deficits, if such there be, are to be paid out of the proceeds from general taxation The primary purpose in such financial policy is public service One outstanding example of a publicly operated industry of this third class is the post office Except for a relatively few years since its operation, the post office has shown a deficit, which must always be covered annually by a special appropriation by Congress from general revenue Such services as the wider dissemination of books and magazines and other literature of general educational value are of sufficient importance to warrant placing part of this expense upon the public

The fourth condition under which the state may own and operate an industry involves the supply of the commodity or service free of charge to individuals with the entire expense of operation met from general taxation In such case, the prime concern is the general public interest, although the individuals may receive personal benefit Such services and commodities, as crematories, anti-toxins, serums, and vaccines may fall within this fourth class They pertain primarily to health, safety and general public welfare, and it may be desirable that they be maintained at public expense The police power function has now developed to such extent that it has become an integral and indispensable part of government In the future, it may expand into and incorporate new fields of service.

In the last analysis, the people of the state decide what industries shall be publicly owned and operated Thus, the field of such activity has no permanent limits If the community is socialistic, much service will be expected of the government If it is individualistic, then the government may occupy a relatively inactive place in the lives of its people As a matter of fact, at present, state activities assume an intermediate position between these two extremes It is therefore not a question of determining in general whether state enterprise is desirable or undesirable At any one time, it is rather a matter of devising a criterion by which it is possible to choose or judge between good and bad public operation In the last analysis, the criterion for judgment between public and private operation is service to the community The

real issue is whether the public is served best by private initiative and ownership, or by public ownership and operation. As yet, on this question, there is no clear answer.

Government regulation of various phases of economic activity is usually a rather costly undertaking. For example, during the fiscal year ended June 30, 1948, the Interstate Commerce Commission spent about 10 5 millions of dollars to supervise the operation of the railroads; the Civil Service Commission spent about 261 4 millions to qualify the personnel of the federal government. In so far as government expenditures and taxation are concerned, it is therefore a matter of great importance to determine what industries should be regulated and to what extent

Fines. A fine is an exaction by the government from an individual as a penalty for some law violation It bears no relation to ability to pay, but it is regulated entirely according to the gravity of the offense A fine arises out of the exercise of the police power of the state. Its very nature precludes it from being used as an important source of revenue. It is employed as a means of enforcing justice, or preserving peace, and of maintaining security of persons and property

In general, all income from fines is paid into the public treasury for the support of the courts This income is merely a by-product of government administration It is intended primarily to impress the offender with the necessity of law observance In times past, the fine system has been a source of much government corruption, especially when the enforcing officer was allowed to keep the proceeds of his exactions as his compensation for exercising the duties of his office This evil is now in the process of being corrected since in most cases money from fines must be paid into the general treasury Under this arrangement, policemen, sheriffs, and judges have been placed entirely on a salary.

Fees. The state has been gradually expanding its activities into certain fields of service and requiring a payment for any special benefit conferred upon the individual The individual is free to accept or not to accept the service, and for that reason the fee may be defined as a semi-compulsory levy for some benefit conferred by the state The fee resembles a tax since both types of revenue must be levied only for the public good. The fee is unlike a tax since it is only semi-compulsory, and always yields a special

benefit upon the individual who may elect to use the government service

The state makes wide use of fees Every litigant before he can bring a suit on a civil case must first arrange for court costs A small sum is always charged for recording deeds and mortgages, for all kinds of licenses, and for the privilege of organizing a corporation. A fee is usually characterized by the fact that it does not cover the entire cost of the public service For example, the amount collected by courts as "costs" pays only a small part of their total expenses The departments which issue corporate charters and business licenses must be largely supported from general taxation The fee is therefore primarily a service charge and is not intended to be a substantial source of revenue

The purposes of the fee may vary from the exercise of police power to that of providing revenue for some special project or purpose. It is frequently used to protect the economic, physical and moral welfare of citizens by repressing certain undesirable social activities In Illinois, all revenue derived from dog licenses is put in a fund for compensating farmers for their sheep which have been killed by dogs and also to curb the harboring of such marauding animals In most states all funds derived from the sale of automobile licenses are used for the construction and maintenance of roads As a rule, the fee is earmarked for some special purpose, and the proceeds are not paid into the common fund for general use.

The fee is used far more extensively in Europe than it is in this country In England it is employed for the dual purpose of regulation and the securing of revenue. Charges are levied for granting all kinds of monopolistic privileges, licenses to hunt and fish, to regulate crafts and guilds, for the use of harbors, bridges, roads, lighthouses, markets and the courts

In France the fee is fixed at the point of the highest net return Special charges are fixed on the operation of public utilities, private educational institutions, patents, hunting and liquor licenses, permission to erect signs along the highways, and the registration of legal papers

The fee was used rather widely in the colonies. In many cases, officials depended entirely upon the fee for their remuneration in office At present, the federal government charges a fee for such functions as granting of patents and copyrights, and for the services of consuls. To avoid political corruption and favoritism,

however, the public official is, in most instances, put on a salary. He is not permitted to retain fee collections as his remuneration

Licenses. At times, it is very difficult, if not impossible, to distinguish completely between a fee and a license However, in general, the license is a charge made by the government for the legal right or privilege of engaging in certain businesses or professions. The state exercises the police power to suppress or to regulate certain kinds of economic and social activity which directly affect the public interest Pool rooms and billiard halls are usually licensed in order that the police may keep a better check on their activities. Doctors, dentists, lawyers, and, in most instances, teachers are licensed in order to insure that only those who are competent will be allowed to practice these professions

The city of Louisville, Kentucky, passed an ordinance which imposed annual license fees for the privilege of engaging in any business, occupation, calling, profession or labor within the city and laid the tax on the percentage of monetary proceeds in the nature of earnings or profits However, the court in sustaining the ordinance held that it was not an "income tax."[3]

In order to prevent fraud, and to protect the butter industry, Congress in 1886 passed a law requiring each manufacturer of oleomargarine to buy a license, and also imposed a tax of two cents a pound on all butter substitutes offered for sale in the United States In 1912 Congress directed its attention toward the manufacturer of matches made with white or yellow phosphorus, and levied a tax of two cents a hundred on their production The purpose was to discourage, or to destroy, the use of this particular chemical in the manufacture of matches because of its deleterious effects upon workers In 1914 a tax of $300 a pound was placed on all opium which was to be used for smoking In 1934 Congress imposed a tax of $200 on each rifle and shotgun which had a barrel less than eighteen inches in length The obvious purpose of these levies was not to raise revenue, but to discourage or to destroy the production and sale of certain undesirable commodities Such imposts had better be regarded as administrative levies.

[3]City of Louisville v Sebree, Ky , 214 S W 2nd 248 (1948). Also see Dole v. City of Philadelphia, 337 Pa 375 (1940) in which a similar measure was sustained as an income tax, although in Carter Carburetor Corp v. City of St. Louis (360 Mo 646 (1948), a somewhat similar ordinance in the City of St Louis was regarded as a species of income or excise tax not within the charter powers of the City.

Poll and Capitation Taxes. These taxes are imposed entirely upon the individual, and are usually grouped among the administrative revenues. These forms of state income are rapidly disappearing from the category of levies by the government, and therefore are not of much significance at present

Under the Constitution of the United States, the federal government cannot levy poll or capitation taxes unless they are apportioned among the states on the basis of population Article I, paragraph 9 of the federal Constitution states, "No capitation or other direct taxes shall be laid, unless in proportion to the census or enumeration hereinbefore directed to be taken." This Constitutional provision limits the imposition of poll or capitation taxes by states and local governments only in regard to assessment in accordance with "equal protection of the laws" without unjust discrimination [4] Not much in the way of litigation has ever risen before the courts in regard to the levy and collection of poll and capitation taxes, but when they are used consistent with the above Constitutional provisions they have generally been upheld [5]

Poll and capitation taxes have had a long and not particularly enviable history They can easily be traced back at least to early Greek and Roman times when polls of the population were taken by the ruler from time to time, and flat tax levies were imposed upon each *caput* or head. Poll and capitation taxes early came to mean one and the same thing, and are generally so regarded at present Their uses seem to have been largely as a supplement to property taxes. They were founded chiefly on the idea that everyone should be required to contribute something to the support of his government. This flat rate on the individual soon graduated itself into a tax on incomes. In fact, Adam Smith, in his *Wealth of Nations,* discusses the income tax under the title "capitation taxes"

England used the poll tax extensively between 1377 and 1698, when it was abolished France adopted capitation levies in 1695, but discontinued their use entirely just before the Revolution in 1789 Shortly after 1800, the Italian and German states and Russia used more or less complicated systems of capitation taxes, only to abandon their use entirely before the end of the century. In most instances, these early poll and capitation taxes were

[4] 37 CyC 766

[5] See Nance v Howard, 1 Ill 242 (1828); Short v. State, 80 Md 392 (1895), People v. Ames, 24 Colo 422 (1897); Sawyer v Alton, 4 Ill 127 (1840), State v Ide, 35 Wash 576 (1904)

assessed in connection with income and property taxes. They were sometimes graduated and classified according to social classes, so that they were often called "class taxes," and were frequently regarded and used as a mark of servility.

In this country, poll taxes were very popular among the Colonies due largely to the fact that the early settlers from England were quite familiar with their use. In almost every instance, the poll tax was used as a complement of the property tax In most cases, as in Massachusetts about 1646, the person of the adult male was given a conventional value in money which was added to the total value or amount of his general property and income, and all were taxed at the same rate at the same time In such instance, the physical body of the adult male was regarded simply as another part of the general property for taxation purposes.

The Southern colonies also used the poll tax, but it never became popular, in fact, it was one of the causes of Bacon's Rebellion in 1676 Due largely to its inequity and regressivity, the poor classes of people disliked the poll tax, as did the Southern planters who were compelled to pay such head levies on their slaves

As late as 1910, the poll tax existed in some form in practically every state in the Union [6] At present (1949), its use is being rapidly discontinued A few states, as Maryland, Ohio, Utah and Oregon, have provisions in their constitutions against the imposition of poll taxes Other states have dropped its use principally by statutory enactment from among the sources of their income, while a few states still retain it on their statute books but make no attempt to collect it Until a few years ago, every able-bodied adult male was required to "work out" his poll tax by helping to build and repair the roads for a specified number of days each year Wherever it is now collected, it is generally commuted in cash The poll tax rate ranges from 25 cents to $12 00 a year, with from $1 00 to $5 00 a year being the most common [7] Its rate is usually uniform for all taxpayers, however, there have been attempts to grade it according to the occupation or social position of the taxed persons and therefore make it progressive Exemptions have been made for students, ministers, paupers, criminals, insane, war veterans, and sometimes for males after they have attained the age of 65 It is imposed by local governments, the

[6] Plehn, C C, *Introduction to Public Finance*, 1921, p 220.

[7] The Tax Research Foundation, *Tax Systems* (9th ed , Commerce Clearing House, Inc , 1942), pp 305 310

county, city and town, school and road districts. It has never been imposed by the federal government It is usually imposed on males between the ages of 21 and 65, although females are sometimes included, as in Wyoming. The proceeds of the poll tax usually go into the general treasury of the collecting unit, although they are sometimes "earmarked" for special purposes

The revenue yield of the poll tax is not considerable; most states derive no income whatever from this source In 1942 the total yield of the poll tax in the United States was $18,458,000 [8]

Aside from being a very poor revenue producer, the poll tax is very expensive to administrate In a few states, it has been collected at the source from employers, but the poll tax should not be regarded as just another tax on wages, it is a tax on the physical person of the individual Payment of this tax is sometimes made a condition to the right to vote, or to obtain an automobile license If the individual does not care enough for the exercise of these special privileges, he may not pay the tax, thus avoiding its imposition, otherwise the incidence of the tax is almost entirely on the taxpayer It does not involve the sale of goods or services, and, therefore, it cannot reappear in the price It is not heavy enough to affect the supply of labor, either presently or in the future, and therefore, it cannot be shifted through the wage cycle It is clearly a non-shiftable tax The poll tax is not levied according to ability to pay It is regressive in that it is a fixed sum levied upon the taxpayer regardless of his income or worldly possessions, which accounts in part for its great unpopularity It has no legitimate place in the tax category of any grade of government, whether as a source of revenue or as an instrument of economic or political control, and, therefore, should be generally discontinued. The poll tax has become the subject of heated political debate in Congress on several different occasions because, as it is used in a few of the southern states, it seems to prevent certain people, chiefly the negro, from voting in national and state elections An anti-poll tax bill was introduced in Congress during the early part of the eightieth session declaring it illegal for any state to make the right to vote on federal elections subject to the payment of a poll tax The matter was dropped, at least temporarily The solution will probably be for the states thus using the poll tax to repeal it

[8] Ibid , Table 1, p 7

Special Assessments. A special assessment may be defined as any administrative levy which is imposed against property to defray the cost of a public improvement[9] Theoretically, it is in proportion to, but never in excess of, the resulting benefit that accrues to property which is subject to the levy[10] It therefore involves a special valuation only when it is necessary to determine an increment which attaches to private property as a result of some public improvement

The special assessment has been used extensively in the United States in the financing of all forms of local public improvements It has become even more popular today than it was at any time in the past. Such levies have been made in England and on the continent, but they have never been used or developed to the same extent as in the United States.

Financing of public improvement projects by means of special assessments is particularly adapted to new and rapidly developing communities Even in the United States, this form of revenue is used in the newer districts more extensively than in the older With few exceptions, the special assessment is used to finance the first or original cost of public improvements; less frequently does it involve reconstruction and repairs The reason for this special application is that in a new and rapidly developing community there is such pressure for funds for the ordinary functions of government that there is little or nothing left for public improvements. Obviously, it is impossible to build streets, boulevards and other public projects at the same time throughout the city, and it is very difficult to determine which improvement shall have the preference

The special assessment seems to have originated in rather natural conditions In the early colonial city, the problem of providing public improvements was much greater than at present because no system had yet developed whereby governments could make levies on adjoining property according to benefit Where specific groups of citizens desired a particular public improvement, for which the general funds were inadequate, they often did the work themselves at their own expense. It was logical that, under such circumstances, only that property which received a benefit should be assessed. Such undertaking was

[9]Briscoe v Rudolph, 221 U S. 547 (1911)

[10]Norwood v. Baker, 172 U S 269 (1898), Aind v Union Pac R Co., 120 Fed. 912 (1903)

entirely private, only owners who were affected were asked to make contributions.

But as cities grew, special improvement projects became less private and more public in their nature, and hence were more generally financed by the government out of general revenue The question of inadequate funds was still present, and the idea of assessing adjoining property according to benefit was developed for the construction of these special improvements. At present, especially in the larger cities, like New York City and Chicago, the amount of public income derived from special assessments ranks along with the most productive forms of taxation — the amount received in some cases actually standing second only to that obtained from the levies on general property.

While in the country as a whole the use of the special assessment has developed a variety or practices, there are certain problems which constantly recur Everywhere, cities have attempted to eliminate, or to correct, the deficiencies by statute as well as by constitutional provisions This legal setup has led to some rather queer conditions In many cases, these statutes and constitutional measures have not been followed to the letter by public officials with the result that property owners who feel that they have been assessed unfairly, instead of trying to evade payment because the benefit is not commensurate with the cost of improvement, attack the procedure of enforcing the laws

Taxpayers have continually raised legal questions concerning definite charter requirements for notifications, or for hearings; the measure of benefit or detriment to adjoining property is always a subject of litigation, so that an almost endless number of suits must be carried through the courts This litigation has caused such great delay and annoyance whenever the special assessment has been used as to raise some doubt in regard to its future practicability

Special assessments have been used for the opening, laying out, grading, paving and repaving, planking, and curbing of streets, for sprinkling, and for illumination, and even for ornamenting streets with shade trees, for constructing drains, sewers, levees, and embankments; for laying wire conduits and water pipes, for bettering waterways and dredging rivers and harbors; for laying out and developing public parks, playgrounds, squares, drives, and boulevards

With the growing use of special assessments for original construction arises the desire to apply these new sources of revenue also for repairs and replacements Tax experts have differed as to the advisability of such broad use of the funds which are derived from special assessments, although the prevailing view is that they should be used only for original construction

In the state of New York, the general rule is that after property has been assessed for the construction of improvements, all future maintenance and repairs should be financed out of general taxation Those who hold to the other point of view contend that maintenance and repair, such as streets need from time to time, involve just as distinct and traceable benefit as the original construction In support of this contention, it is only necessary to point to the effect on the sale value of adjoining property which streets have when they are badly in need of repair

The courts likewise have held conflicting views in regard to the uses of special assessments In some cases, it has been held that special assessments may be used for both original construction and repairs and replacements, while in other instances such privilege has been limited entirely to original construction The Vrooman Act of California, for example, was amended in 1915 to permit the use of special assessments for other purposes in addition to original construction; and, in a test case, the courts upheld the legality of this law On the other hand, the Pennsylvania courts held in two cases that no paving assessments could be levied on streets which had previously been improved, even though such repairs involved "turnpiking," or the application of crushed stone These holdings of the Pennsylvania courts seem to represent an extreme view, and are not widely followed

Scarcely second to that of streets and sidewalks, the special assessment has been used extensively in the past to meet the first cost of sewer construction There is a growing tendency at present, however, to regard the sewer, because of its importance to health, as a special benefit to the entire city; and therefore its construction and maintenance should be supported out of general taxation only

In most cases today the sewer costs are partly assessed against adjoining property according to special benefit; the remainder is paid out of the proceeds from general taxation In many cases a poor district cannot afford a sewer, or even contribute any substantial sum toward its construction and maintenance, and yet the health of the entire city may suffer greatly if it is not constructed

Since such public conveniences as sewers have such wide and diversified benefit to the community, it may be that a flat rate on all property throughout the city will be found more equitable for its original construction than an attempt to raise the funds by means of a special assessment, according to benefit received. In many cases, the special assessment is merely a convenient method of raising money, and, as will be explained later, the benefit to adjoining property, which is alleged to arise out of the public improvement, either defies an approximate estimate, or it is so general that the entire community should be required to contribute.

The question may now be rightfully raised. What valid reasons can be given why the special assessment should be used at all? In the first place, it is used under certain conditions because of its equitableness. Certain public improvement projects confer such a special benefit upon adjoining property that such owners should either be required to pay the entire cost of the construction, or a substantial part of it Under such conditions, it would be unjust and inequitable to finance such improvements from general tax funds, and thereby shift the burden to those who receive none of the benefit In the second place, the special assessment may be used when it is necessary to evade tax and debt limitations Many states and municipalities enact laws which place an upper limit on the amount of money that may be raised by means of taxation or by issue of securities, and additional funds can be raised only by special vote of the taxpayers. The third reason why a special assessment may be useful is to catch property which is otherwise tax exempt. Ordinarily, such private institutions as churches and hospitals are tax exempt; but since these properties may also benefit from certain public improvements they may be expected to make contributions. In the United States, the special assessment has played an important part in financing various kinds of public improvements, and it may be expected to continue this role for some time to come. Perhaps the reason it has developed so extensively is that the pressing need of local improvements has placed a greater burden on the ordinary forms of taxation than they could bear It is safe to predict, however, that, as this country becomes better developed, as is the case in Europe, the special assessment may be less used, and that all original costs, as well as replacements and repairs on public improvements, will be financed out of general tax funds.

Aside from those already mentioned, the special assessment presents great problems in its use and administration First, the area which is to be included must be mapped exactly Second, the amount of benefit which accrues to each piece of property must be ascertained so as to furnish a basis for the distribution of the burden among taxpayers.

In the case of every special assessment, a traceable benefit must be shown to adjoining property, or otherwise the levy might be enjoinable in the courts As a rule, this benefit has not been difficult to establish, at least in theory, to the satisfaction of the court. But the apportionment of the benefit among the various taxpayers always presents a great problem Various rules of apportionment have been devised, but the one laid down by a Massachusetts court is complete and practicable; it is as follows. "The rules by which the amount of benefit conferred upon land by public improvement is to be ascertained, when that question arises as a matter of fact, are the same as those by which land values are determined in any other connection. The inquiry is, how much has the particular improvement added to the fair market value of the property as between a willing seller and a willing buyer with reference to all the uses to which it is reasonably adapted and for which it is plainly available, prospective as well as present by strangers as well as by the owners? Chances and probabilities of future use, as sufficiently near in time and definite in kind to be of practical importance, enter into present market value, and so far as they enhance or diminish it, are to be given full weight But where they are so remote as to rest chiefly in the imagination, and do not in fact influence the price which customers would be willing to pay in a present sale, they cannot be the basis of a determination of benefit or value"

In determining the exact benefit which accrues to a particular piece of property the following items of information are particularly important·

First, the present value of each piece of property that lies within the assessed district must be fixed and ascertained. This fact is usually determined by an appraisal by a group of real estate experts

Second, the enhancement of value to this land which will likely result from the construction of the proposed project must be estimated. This fact is a little difficult to determine because the appraisers are thinking in terms of future values,

> and only their judgments, based upon such other actual experiences as are available, serve as their guides.
>
> Third, the appraisers must estimate the extent to which the effect of this improvement has already been discounted.
>
> Fourth, all data in regard to the character and value of private improvements, such as the construction and repair of buildings which have been added by the owner, must be ascertained

The obvious ultimate purpose of this plan is to determine the net benefit which the public improvement may have conferred upon each piece of property within the affected district. Costs of public improvement will then be apportioned among the various taxpayers on the basis of the net benefit which each is expected to receive The general theory is that this net increase in value to the adjoining property is not the result of the efforts of the owner, but of the acts of government, and therefore the latter should receive it, at least in part

It is necessary to map the district so as to show the exact area affected If the property within the area is homogeneous, the problem of benefit determination may be greatly simplified But if it is a district which contains, for example, stores, filling stations, apartment buildings, and private residences, many difficulties immediately arise, which may only be settled finally in the courts

In many cases, the benefit may not be immediate but deferred, as where a district is slowly being changed from residential to apartment or business In such instances, the benefits or detriments from public improvements to such types of property are so inchoate and theoretical that even an approximate estimate may not be possible

In a few instances, the benefited area is naturally determined, as for example, flood and drainage districts Farmers often band together to construct artificial drainage ditches or canals to convey surplus surface waters The cost of such a project is usually allocated among adjoining property owners on other bases than benefit received It may be apportioned according to relative land area, or assessed valuation. In some cases, these methods are found to be equitable, as the farmers' drainage canal just mentioned, and in certain other instances they would be unjust If only adjoining property, in case of a street improvement, were to be assessed, relative surface areas or market valuations might be used to an advantage. But when property situated at varying distances from

the improvement is to be included, some other basis for allocation of costs among owners will necessarily have to be used.

When only adjoining property is to be assessed, sometimes front footage may be used as a basis for distributing costs. But the lots or strips of land must, in such case, be of equal depth and of fairly uniform value or the rule of equity will be violated. This problem particularly becomes acute in case of corner lots, or lots that are irregular in shape or of varying depths

In most cities, no rules are used for assessing, or comparing, the value of lots of varies shapes, sizes, and descritpions. Even though an assessor may know the value of certain lots on a given street, he is often at a loss when he is expected to place a comparative value on adjoining lots of different depths and shapes When it is considered that in the average city the business section especially is cut up into small and oddly shaped parcels, the need of some rules or suggestions to assessors on the assessment of front footage is apparent

There are several methods now in use for the measurement of the value of various depths of lots The most elementary of these is the 4-3-2-1 rule, according to which the first 25 feet of a 100-foot lot are worth 40 per cent of the whole; the second 25 feet, 30 per cent, making the first half 70 per cent of the entire value The third 25 feet are considered as being worth 20 per cent of the whole, making the first 75 feet worth 90 per cent of the whole; and the last 25 feet 10 per cent of the entire lot. Other rules for measurement of the front foot values are the Hoffman-Neill, Lindsay-Bernard, Milwaukee, Newark, and Somers rules

At present, the Hoffman-Neill rule is used by assessors of New York City This rule originated some fifty years ago, it gives the front half of a lot two-thirds of the entire value A few years later elaborate tables based on this rule were published These tables are nothing more than a careful calculation of the proportion of the entire value for each foot back from the street

In New York City, the Lewis Paving Plan is used for street construction The plan is based upon the width of the street; the percentage of costs which are allocated to adjacent property is determined as follows. If the street is 60 feet wide, or less, then 100 per cent is paid by adjacent property; if 70 feet, 89.3 per cent, if 80 feet, 81 25 per cent, if 90 feet, 75 per cent, if 100 feet, 70 per cent; if 120 feet, 62 5 per cent; if 140 feet, 57 1 per cent; if 150 feet, 53 3 per cent, while if the street is 200 feet wide, then only 40 per

cent of its cost will be thrown on the adjoining property. The balance of the cost in each case is paid from general tax funds.

Methods of Financing Special Assessments. Some six methods are in use for financing special assessments. Some are useful, others are not The first plan is collection in advance In this case, all money for financing a project is collected before construction begins. The chief disadvantages are that this method may throw an excessive burden on taxpayers; it may also tie up unused funds for a period of time, and remove them from production channels. It necessitates making complete estimates and plans of construction in advance, this may seriously embarrass the whole project in case subsequent changes become necessary It is needless to say that this method of collection in advance can be applied only when the proposed public improvement is relatively simple and of small proportions

The second plan is payment by installments. The chief objection to this financial arrangement is that it may lead to waste of funds and excessive costs. No one knows in advance what the total cost of a proposed public improvement will be, or when it will be completed This plan introduces a kind of continuous program of public construction, its use is not to be recommended

The third plan is collection from the adjoining property owners after the improvement is completed This is advantageous in that the exact cost of the project is known before payments are made, but it throws an added burden on the contractor. He is forced to furnish his own capital for current expenses; he usually does this by borrowing at a local bank. The city may also use tax warrants to raise funds for current expenses These warrants are merely promises to pay out of particular future tax receipts, and they are usually non-negotiable and pass at a discount The tax warrant plan of financing is not one especially to be recommended.

The fourth plan uses a revolving fund The city, either by means of general taxation or bond issues, or both, creates this fund which is lent first to one district and then to another for the purpose of constructing streets, sewers, etc. The district agrees to reimburse the city at some stipulated future time, the money is then raised by a special assessment. This plan is quite widely used; it has many very obvious advantages

The most widely used plan, and the one which is most highly recommended, is the individual project method. It is sometimes

known as the temporary financing plan, because it involves the issuance of short-time notes from time to time as the project proceeds These notes are later consolidated into long-term bonds which become part of the public debt The advantages of this temporary financing plan are: First, it gives the city an opportunity to choose the most favorable time for entering the long-time bond market. Second, it permits a considerable saving in interest charges during the period of construction. Third, and finally, under this plan there need never be an over-issue of long-term bonds

This individual project plan of temporary financing is probably the most widely used method of raising funds, especially where the outlay may be expected to be large and continuous over a long period of time

Sometimes a sinking fund plan is used, but many objections may be made against its use Somehow the fund must be created, thereby withdrawing capital from production; when it is accumulated it is always a temptation to a legislature to use it for other, and possibly, wasteful purposes Except for very special purposes, a sinking fund is not to be recommended.

Excess Condemnation. Excess condemnation arises out of the power of eminent domain of the state to condemn land for public use Its use is usually incidental to and arises out of the levy of special assessments on land for public improvements One eminent authority on this subject defines excess condemnation as "the policy, on the part of the state or city, of taking by right of eminent domain more property than is actually necessary for the creation of a public improvement and of subsequently selling or leasing this surplus "[11] Because of the Fifth and Fourteenth Amendments to the Constitution of the United States the federal, state and local governments would be required to pay reasonable compensation for any excess condemnation as in any other condemnation proceeding; but to be constitutional the public interest would have to be involved under the inherent power of eminent domain.

Excess condemnation may be employed for any one of several purposes First, a government in the condemnation of property for public improvements might also take odd pieces or remnants of realty not necessary to the improvement but of little or no

[11]Cushman, R E., *Excess Condemnation*, 1917, p 2

value apart from it Such instances might occur in street widening or laying out of streets in new additions where odd corners or pieces of lots are left Second, it may be advisable to condemn a larger area than is actually needed to ensure aesthetic surroundings for public buildings, parks, and boulevards. Third, the location of schools and cantonments, for example, may require the inclusion of adjacent areas of land so that the government may be able the better to control the operation of certain more or less objectionable institutions in the immediate vicinity. Fourth, sometimes the government condemns a larger area than is needed for the particular public improvement in order that the excess may be sold to take advantage of the unearned increment before it gets into the hands of individual speculators

Since all these purposes are in the interest of the public they have generally been sustained by the courts The federal government has in many cases condemned land in excess of that which was necessary for the immediate project, such as in the construction of drainage ditches, canals, dam sites, military fortifications and cantonments Some thirteen states have inserted the right of excess condemnation in their constitutions,[12] which right has been extended by statute to their sub-political divisions, especially to the cities While excess condemnation has never been too popular in this country, and therefore employed only to a limited extent, it has been rather widely used in European countries, especially in England

Summary. Almost all grades of government secure revenue from sources other than taxation, such as from the ownership and management of public domain; operation of public industries, levies on such extractive industries as forests, mines and oil wells; administrative revenues from fees, fines, licenses; special assessments, and excess condemnation Escheats, gifts and coinage have never been important sources of income to any government in the United States

In general, modern governments have transferred by one means or another about all their public domain into private hands, retaining chiefly that part which is necessary for conservation of natural resources Operation of industrial establishments by any government in the United States for profit has never become important

[12]California, Connecticut, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Oregon, Rhode Island, Virginia and Wisconsin

All grades of government use fines, fees and licenses as means of checking law violation, charges to the people for public service, and for the purpose of legalizing certain trades or professions in the public interest

The taxation of natural resources is an administrative problem and is largely for the purpose of conservation and for the regulation of their exploitation. Forests are reproducible and may be operated profitably by the state on a large scale. Mines and oil wells are non-reproducible, and sooner or later operate under the law of increasing cost and decreasing return It is for these reasons that forests on the one hand and mines and oil wells on the other should be classified differently for taxation purposes.

The special assessment has been used extensively by the states and local governments, especially by the latter Its use arises under the power of eminent domain, and may be used by any sovereign government or granted to its political subdivision under proper constitutional and legislative authority Excess condemnation falls into this same category Special assessment is used to help finance the first cost of a public improvement to realty. The adjoining property owners may be assessed according to benefit received, but never in excess of it. There are many methods of financing special assessments, but the usual method is the individual project plan In such case, short-time notes are issued and are later consolidated into long-time bonds

TEXT QUESTIONS

1 What has been the experience of governments, especially that of the federal government since 1789, in regard to public domain as sources of revenue?
2 Why should a government dispose of its public domain? Why should it retain it? How has the federal government disposed of its public domain?
3 What are the chief problems in the taxation of natural resources?
4 Why should the taxation of forests be treated differently from that of the extractive industries?
5 Can you distinguish the tax imposed on natural resources to control their exploitation from that when imposed for revenue purposes?
6. Does the fact that extractive industries operate under conditions of increasing cost-decreasing return basis have any bearing on their tax policy?
7. What are severance taxes? Does the federal government assess severance taxes?

8. Compare and contrast state owned and state operated industries in this country with those in Europe
9. In this country, what are the principal reasons why governments own and operate certain industries?
10. What are the chief fiscal motives of state operation of industries?
11. What restrictions have been imposed, other than through the power of taxation, to regulate exploitation of natural resources? Were they constitutional?
12. Define and distinguish fines, fees and licenses. Under what power does the state impose such levies?
13. What is the history of the use of fees in the colonies? At present? In Europe?
14. What has been the experience of governments in the use of the capitation and poll taxes?
15. What is the present fiscal importance of the poll tax? Its social and political significance? Its legality and constitutionality?
16. What is a special assessment? What is the *one* factor that must be present to make the special assessment constitutionally possible?
17. According to the Massachusetts Court, what are the rules that must be taken into consideration in determining the amount of benefit?
18. To what extent is unearned increment taken into consideration in the determination of special assessments?
19. Can special assessments be used for purposes other than original capital cost, such as maintenance and upkeep?
20. What are the principal methods of financing special assessments? Which is most commonly used and why?
21. How do cities assess lots for taxation purposes?
22. What is excess condemnation? Upon what constitutional basis is such levy assessed? What are the chief reasons for imposing excess condemnation?
23. Do the states and federal government ever impose special assessments and excess condemnation? Does each operate under the same constitutional power?

RESEARCH PROBLEMS

1. Make a study of one or more special assessment projects in your city or immediate community. Note especially such procedures as mapping of the district, determination of special benefits; condemnation proceedings where and if brought in court, handling of increments and decrements, methods of financing the project.
2. To what extent does your state possess a public domain? How did your state acquire its public domain? What use has it made of it? How has it disposed of it? Do you have any land-grant educational institutions in your state?

3. Make a study of your state laws respecting the taxation of forests, mines and oil wells, and other natural extractive resources Does the purpose of such taxation seem to be in the interest of conservation or for revenue? What is your criticism of such system of taxation?
4. Do you have a severance tax in your state? Make a complete study of its imposition
5. Do you have a poll or capitation tax in your state? If you have, what of its yield? Does it have other purposes besides revenue?
6. Visit the assessor's office of your city and make a study of the methods used to evaluate lots of odd-shape for taxation purposes. What other rules also used for the evaluation of lots within the block as well as on the corner?
7. Is there in use in your state or local government a circulating fund which may be loaned to first one district and then to another? If there is such fund, how was it created? How is the money raised by the borrowing district to make repayment?

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CHAPTER 27

CONSUMPTION TAXES

Sales taxes, certain taxes on selected commodities and services, excises, and customs duties are usually classified as consumption taxes. The expression sumptuary taxes is occasionally used in connection with some of these taxes, but this term should be applied only to such taxes as are primarily intended to penalize the consumption of certain articles.

Customs duties are imposed upon foreign goods at the border as they enter a country In general, such levies are shifted on to the consumer in higher prices and therefore represent another phase of taxes on consumption The Constitution permits the federal government to levy duties on imports but not on exports The constitutional power of the federal government to levy on imports is unlimited and exclusive, except that the Constitution permits Congress to authorize a state to levy on imports for the purpose of paying costs of inspection at ports of entry. As to excises and taxes on sales of goods and services within the country, the power among all grades of government in the United States is concurrent. In fact, this power may be too concurrent in the sense that the federal, state, and local governments may levy on the same goods and services at the same time, thereby greatly pyramiding the tax on the consumer The shifting, incidence, and pressure effects of these taxes are therefore of the greatest importance. The general economic and legal nature of each of these taxes will be considered in this chapter

General Aspects. Rather imperfect and often conventional distinctions are sometimes drawn both by the legislatures and by the courts between different consumption taxes In a sense, each of these taxes is a levy on property and on business and could very well have been discussed under these general heads. In general, when the tax is made to fall on the value in possession or on mere ownership of property, it is held to be a property tax,[1] and hence *direct.* When the tax is made to fall on the privilege of using, producing, or transferring property or service it is said to be *indirect* Therefore a rather fine distinction is sometimes made

[1]Pollock v. Farmers Loan and Trust Co., 158 U S 601 (1895)

between taxation of value in possession or ownership of property and taxation of the privilege of using, producing, or transferring property. These distinctions usually arise in the United States out of constitutional questions. When the tax is made to fall on the value of possession or mere ownership of property, and is therefore direct, it must be apportioned among the states according to population when levied by the federal government. When it falls on the privilege of using, producing, or transferring property or services, and is therefore indirect, it need only be uniform throughout the United States when levied by the federal government. The various states are not affected by these constitutional provisions, although they must comply with the rule of uniformity, equality, and reasonableness.

The term transfer as here used designates that passing of title or use of a commodity or service, by contract of sale or privilege, from one person to another, for a sufficient consideration. The term transfer in case of excises is therefore to be distinguished from its use in the levy of estate, inheritance, and gift taxes in the case of descent of decedent estates. However, in both cases the taxes are usually regarded as indirect.

Excises in General. An excise tax is an indirect tax; it is a tax on production, transfer, or use of specific property.[2] Excise tax rates may be made, and frequently are, progressive and graduated by brackets, both by the federal government and by the state and local units The term excise is also restricted to inland imposition on property as distinguished from import duties While the term excise has been used in practice to exclude estate and gift taxes, the latter have been held by the courts to be true excises[3] because the tax is made to fall on the transfer of the property.

The history of excises in this country goes back to early colonial times, and such forms of income were adopted by the federal government immediately upon its organization in 1789. The liquor taxes were the chief cause of the Whiskey Rebellion of 1794 The whiskey excise tax was discontinued after the war of 1812 and was not resumed until around the beginning of the Civil War. To supply additional revenue, Congress in 1862 imposed a specific excise tax of two dollars a gallon on the produc-

[2]See Patton v Brody, 184 U.S. 608 (1902), and Bromley v. McCaughn 280 U S 124 (1929)

[3]New York Trust Co v. Eisner, 256 U S 345 (1921)

tion of whiskey. This tax was the chief cause of the famous whiskey pool and later the whiskey trust of 1887.

World Wars I and II and the great depression of 1929-1939 greatly expanded the use of excises, especially by the federal government. In 1933 came the processing taxes on such basic commodities as cotton, corn, hogs, rice and wheat, only to be held invalid by the United States Supreme Court in 1936 as beyond the power of Congress to regulate agriculture.[4] To recover the amounts passed on to the wholesalers and retailers by the processors in anticipation of the processing tax, Congress, in 1936, imposed the "Tax on Unjust Enrichment," popularly called the "Windfall Tax." The rate was an ad valorem 80 per cent. A tax was also imposed on the domestic processing of certain oils, including coconut, sesame, and palm oil, at the specific rate of three cents a pound, with an additional two cents a pound on coconut oil. This processing tax was sustained by the Supreme Court as a revenue measure as being within the power of Congress.[5] These oil-processing taxes are still in effect but at somewhat different rates

While the severance tax is used chiefly by the states, yet such an excise tax is not unknown to the federal law. A severance tax is an excise on raw materials severed from the earth. The federal excise tax on crude petroleum, enacted for regulatory purposes in connection with the NIRA, but repealed on July 1, 1938, is illustrative of this class of levy; also the excise tax on bituminous coal of one cent per ton, plus 19½ per cent of the sales price at the mine, imposed under the Bituminous Coal Act of 1937 for the purpose of regulating the coal industry. This act was repealed and expired in 1941. These two acts constitute about the only attempts by the federal government to impose severance taxes.

The depression of 1929 to 1939 was primarily responsible for the levy of a group of miscellaneous commodity and service excises, sometimes called the facilities taxes. These consisted of taxes on safe deposit boxes, transportation of oil by pipe lines, telephone, telegraph and radio messages and services, electrical energy, and admissions to places of amusement and recreation. Some of these were ad valorem and others were specific levies The gross yield was not very great, although, since the cost of

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[4]United States v Butler, 297 U S 1 (1936). Also see Rickert Rice Mills, Inc v Fontenot, 297 U.S. 110 (1936)

[5]Cincinnati Soap Co v United States, 301 U.S 308 (1937)

collection and administration was very low, the net return has been very high.

Commodity Excises. The federal budget for 1950, pages A 12-13, lists the general headings of excise taxes imposed by the federal government, with actual receipts for 1948, as follows.

FEDERAL EXCISE TAXES FOR 1948

Types of Excise Taxes*	Actual Receipts (1948)
1. Liquor taxes	$2,255,277,693
2. Tobacco taxes	1,300,278,120
3. Stamp taxes	79,465,936
4 Manufacturers' excise taxes	1,649,233,778
5 Retailers' excise taxes	469,922,738
6 Miscellaneous taxes	1,657,479,197
7 Treasury Adjustments (Less)	—9,627,538
Total excise tax receipts	$7,402,029,924

*The student should refer to these various headings in the budget for a complete list of the specific articles upon which the taxes were imposed The Bureau of Internal Revenue of the United States Treasury Department issues Regulations on all these taxes which may be had on request

Liquor Taxes. After the repeal of the Eighteenth Amendment in 1933, the receipts of the federal government from alcoholic beverage taxes began to mount very rapidly In fact, the federal taxes on alcoholic beverages were held not to conflict with the prohibition act and remained in effect during the period.[6] The federal income in 1948 from this source was in excess of 2.2 billions of dollars which was considerably larger than that from any other excise The annual rates of tax now in force are as follows:

Special License Taxes

Brewers of 500 bbls or more a year	$100.00
Brewers of less than 500 bbls a year	50 00
Manufacturers of stills	50 00
Retail dealers in liquors	25 00
Wholesale dealers in liquors	100.00

The total tax by the federal government on the manufacture of whiskey is a specific levy of $9.00 a proof gallon. States likewise

[6]Hyman Wainer v. United States, 299 U.S. 92 (1936).

levy upon alcoholic beverages. A few states, notably New Hampshire, Vermont and Washington, have granted the exclusive right of purchasing, manufacturing or selling certain or all alcoholic beverages to liquor control boards or commissions, thus centralizing the control and production of revenue In all other cases, such excise taxes and license fees are administered by state or local tax officials.

A few constitutional questions have been raised, chiefly in regard to tax immunity of the states However, under the Twenty-First Amendment, it has been held that the states have authority under their police power to regulate traffic in intoxicating liquors without conflict with the interstate commerce clause of the Constitution, so long as the exercise is reasonable.[7] Also, since the business of operating retail liquor stores or liquor manufacturing is not an instrumentality of government, any state engaged in such business is not immune from federal taxes.[8]

The states customarily exempt from excise taxes alcoholic products used for medicinal, scientific, mechanical, sacramental, and export purposes The state tax rate on the manufacture of beer averages about $1.25 a barrel, and from 50 cents to $1 50 a gallon on spiritous liquors. License fees on distillers and brewers as producers range from $500 to $2,500 a year.

Tobacco Taxes. The internal revenue code provides that the excise tax applies to tobacco that is manufactured in, or imported to the United States, and sold or removed for consumption or sale The excise tax on tobacco is one of the large producers of revenue to the federal government, yielding a little in excess of 1.3 billions of dollars in 1948 Largely due to the fact that the manufacture of tobacco is concentrated in relatively few hands, not much in the way of litigation has ever arisen in regard to its taxation. However, the application of the federal tax on sales to the states has been held valid.

The federal tax on cigars and cigarettes is both ad valorem and specific. The rate starts at $2.00 a thousand on cigars if manufactured or imported to retail at 5 cents each and is roughly graduated up to $13.50 a thousand on those to retail at more than 20 cents each. The rate ranges from $3 00 to $7 20 a thousand on cigarettes, depending on their weight and length

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[7]State Board of Equalization of California v Young's Market Co , 57 S. Ct 77 (1936)

[8]Ohio v Helvering, 292 U S 360 (1934), and South Carolina v United States, 199 U.S. 437 (1905)

The states and local units also assess heavy ad valorem and specific excise taxes on the sale and production of tobacco in all its forms, thus greatly adding to the pyramid of taxes passed on to the consumer. In a few states, as in Connecticut, the tax is imposed only on cigarettes, while in others, as in Alabama, smoking and chewing tobacco, cigars, cigarettes and snuff are covered. Tobacco taxes are usually based on the retail price of the commodity, thereby taxing a more expensive article at a higher rate. In some states, as Alabama, tobacco products are not taxed at the same rates. The tax is usually in the form of stamps affixed by the vendors.

Stamp Taxes. The term "stamp taxes" merely indicates the method of collecting certain taxes, and the evidence that such levies have been paid. Stamp taxes are used in a great variety of ways by all grades of governments both in this country and abroad In general, stamp taxes on documents, or documentary stamps, should be distinguished from those affixed on commodities. Stamp taxes are not a very large source of revenue to the federal government, yielding only about 79 4 millions of dollars in 1948 But since the cost of the stamps is negligible and the expense of administration and of collecting the revenue is very low, the net yield of this tax is very high Federal stamp taxes are imposed upon the following transactions

(a) Issues of capital stock
(b) Sales and transfers of capital stock
(c) Issues of bonds, debentures, and certificates of indebtednesses
(d) Sale and transfers of bonds, debentures and certificates of indebtednesses
(e) Conveyances of realty sold
(f) Passage tickets
(g) Foreign insurance policies

Stamp taxes are imposed both upon the original issue and upon the transfers of the capital stocks of corporate entities. On the original issue of shares or certificates of par stocks the rate is 11 cents on each $100 share or fraction If the original issue is no-par stock, the rate is 11 cents on each $100 share or fraction of *actual* value In the case of transfers, the rate is variable, but in general it is 6 cents on each $100 share of par stock sold, and a similar levy on no-par stock where the selling price of each share is $20 or more.

Stamp taxes are also imposed upon the issue and transfers through sale of bonds, debentures and certificates of indebtedness of corporations The rate on original bond issue is 11 cents on each bond of $100 face value or fraction, and 5 cents on each bond of $100 face value on transfers by sale.

A few other items, such as conveyances of realty, passage tickets on railroads, air and bus lines, foreign insurance policies, sale of silver bullion and playing cards are also subjects of stamp taxes In most cases, the purpose of the tax is to provide a source of revenue, in other cases, as in that of the sale of silver bullion, it is chiefly regulatory.

Motor Vehicle Taxes. The appearance of the automobile and the rapid development of the automotive industry brought forth a group of taxes by the federal and state governments to cover new and heavy public expenditures, chiefly for improved highways This special set of taxes may be grouped and discussed under the general heading of motor vehicle taxes. These new levies were imposed chiefly on the sales of tires and inner tubes, automobiles and motorcycles, lubricating oils and gasoline Of these taxes, the levies by federal, state and local governments on gasoline are the most important.

It is a question to what extent the motorist should be taxed to build and maintain public highways. Until a few years ago, highways were almost entirely built and repaired by the local governments out of the proceeds from general property taxes. Later the states began to make some contribution towards the expenditures. In a few instances, as in Indiana and Iowa, special assessments were imposed on the owners of adjoining property to meet these outlays. It is contended that interstate buses and motor trucks are not competing fairly with the railroads because the federal and state governments supply the highways without special charge whereas the railroads must maintain their own road beds out of their earnings This contention led a few states to impose special "expense fees" on the users of their roads, which in most instances have been sustained by the courts [9]

Oregon, on February 25, 1919, first levied a tax on the sale of gasoline. Colorado, North Dakota and New Mexico promptly

[9] See Aero Mayflower Transit Co v Board of Road Com'rs 68 S Ct 167 (1947), Ingels v Morf et al, 57 S Ct 439 (1937), Morf v Bingaman, 56 S Ct 756 (1936), Clyde Mallory Lines v Alabama, 56 S Ct 194 (1936)

followed. Today the states, local units and the federal government derive considerable revenue from this source.

The earliest use of the gasoline tax was to provide for the construction and maintenance of highways But the great possibilities of income from this tax, together with the expanding need for revenue, led to a diversion of large portions of this yield for general use by various grades of government. The statistics show that the gasoline tax is making very large contributions to the support of about every governmental function. It remains to be tested by experiment to determine at what point diminishing returns will begin to operate for this tax — in other words, the area in which the pressure of the levy, as distinguished from the incidence, becomes an evident factor

In most instances, the states began with a levy of one cent a gallon. The levy was gradually stepped up to higher levels; meanwhile, the minor divisions of the state began to tap this source. It became an object of federal government tax in 1932 with a levy of one cent a gallon. In 1939 a six-cent tax on each gallon was not uncommon, and, in a few cases, additions by local divisions brought the total to as much as ten cents or more. Increased consumption has continued to mount in spite of these rates Although there is growing resistance to further increases in the tax rate, there is every indication that the present level at least will be maintained

From government point of view, there are reasons why these high tax rates will not be relaxed For one thing, fuel oil taxes are a very large producer of revenue. The tax is easy to collect, and, as far as government is concerned, the cost of administration is relatively low, averaging scarcely above 2 per cent of the gross yield.

No doubt the states delude themselves when they assume that the tax is a means of making traffic through their borders pay something toward the maintenance of their highways To gain this advantage, if such it is, they must tax their own citizens. Moreover, it is possible to take the point of view that expenditures of these tax incomes confer a social benefit far in excess of the burden which they impose. And it might be urged that this is true notwithstanding the fact that large portions of the gasoline tax income are diverted to other than highway purposes However, this line of argument seems to be based on the benefit theory of taxation which has been largely discarded.

There are points on the other side of the argument that should not be overlooked. For commercial users, the tax, in most instances, is regarded as a cost of production, and is consequently passed on to the consumer in higher prices. But for private owners of motor vehicles the tax is direct; that is, it rests upon the payer. It makes a considerable draft upon persons of small incomes This is particularly the case when it is added to the cost of license, property, and other taxes, which fall upon the owner of a car. It has sometimes been said that automobile taxes are "a levy on a poor man's luxury." However this may be, it is not levied in proportion to ability to pay. In fact, it is regressive in that it bears much more heavily on a man with small means than on one who is in the middle or upper classes.

Sales Taxes. Only taxes on the value of property, principally realty, are older than levies on the sale or transfer of lands, commodities, and services. Records are extant of sales taxes imposed by the countries east of the Mediterranean in pre-Biblical times, and by early Egypt and Greece Emperor Augustus imposed a tax of one per cent ad valorem on lands, movable goods, and fixtures, and 2 per cent on slaves sold in the market or at auction Countries of mediaeval Europe employed the sales tax extensively; for example, the Spanish alcavala in 1342-1345 of 10 to 15 per cent on salt France in 1871, after the Franco-German War, and Germany, after World War I, adopted a system of sales taxes as emergency measures, but they have been continued to the present Other countries, like England and Russia, have relied heavily on income from taxes on sales of goods and services, and still do. The United States Government has imposed taxes or excises on selected commodities and services almost from its beginning. During emergencies, such as the Civil War, World Wars I and II, the bases have been greatly broadened, but never to the extent of a general sales tax West Virginia in 1921 was the first state to introduce a sales tax Today more than thirty states impose excises of one kind or another on the transfer of goods and services. During normal times, the sales tax yields are considerable. Some European countries obtain a large proportion of their total tax income from this source For example, in Germany in 1923-24 it was 37 4 per cent; in Belgium in 1928 it was 23 9 per cent; and in France in 1926 it amounted to 21 2 per cent Except for the tax on gasoline, no tax has spread as rapidly as the levy on sales

A sales tax is an excise imposed on domestic transactions, but it may also have some of the aspects of custom duties as it is made to fall on imports and exports. The sales tax is an excise imposed on the transfer of goods and services from seller to buyer It is, therefore, indirect and need only be uniform when used by the federal government. About the only restriction to the states on the use of sales taxes is that they cannot levy on interstate commerce.

The depression years supplied another occasion for the use of sales taxes. The inability to balance budgets, the increasing need of relief, the unwillingness of state legislators to place a heavier load on the owners of general property, the obvious impossibility of obtaining larger revenue from income taxes whem many corporations were operating at a loss, and when personal incomes were on the decline, were the chief reasons for adopting a system of taxes on sales

In a great many instances such taxes were regarded as emergency or "last resort" measures, to be abandoned when the pressure of necessity had been removed Many states placed expiration dates on such laws, most of which have been extended At any rate, there is a strong likelihood that these measures have come to stay, at least for a considerable time.

Sales taxes are set up in different ways. In some forms, items are included which are not properly described by this title. The so-called gross receipts tax, as usually conceived, makes the charge rest on personal or other services They may be placed on the manufacturer, wholesaler, or retailer, or on all of them at the same time

Sales taxes, in whatever form, generally give the impression of an attempt on the part of legislatures to gather income, however small the contribution of individual items, from many sources Possibly this was in the mind of a speaker before the Senate Finance Committee in 1921 when he said that the general sales or turnover tax "constitutes the last resort of those countries which find themselves in such difficulties that they must subordinate all other principles of taxation to the one principle of adequacy" This overstates the case, because some countries have made this levy an integral part of their tax system, sometimes as a substitute for other forms of taxes, and usually with an attempt to justify the levy on the basis of some tax principle

Levies which are labeled sales taxes take many and various forms. The retail sales tax is imposed at the point where the goods pass into the hands of the final consumer. The manufacturers' sales tax, as the name implies, is laid on the producers of finished goods, and is passed thence to retailer and consumer

The retail sales tax is the most common of the levies that come within this general classification; however, not only the application, but the method of administration, varies from state to state; in addition, exemptions of varying descriptions reduce somewhat the scope of the laws. Further, in some states, the tax is graded in a progressive scale up to a certain maximum, beyond which a flat rate applies. In some cases, the purpose of the legislators seems to have been to make the law bear lightly, or not at all, on certain economic groups. The exemption of agriculture, of wages, of rentals seems to be in this class

As sales tax laws are commonly administered, manufacturers or dealers, depending on the kind of tax, are the collection agencies A check of their records is necessary This at one time was regarded as an intrusion of government into matters that were considered private affairs To permit the dealer merely to state what he owed without a check of his statement would open the door wide to escape.

But as to the adequacy of the information for cash payments the collection of the tax is made at the time of purchase. Under some tax arrangements certain articles are exempt. Some states exempt food. Somes tates also do not tax sales to religious and charitable institutions This complicates the calculation and administration. An added difficulty is found in some states where, by the terms of the law, an attempt is made to grade the tax up to a certain amount, with a flat rate beyond that sum What ought to be collected under these arrangements is largely a matter of estimate. The matter is not so difficult with charge accounts Here the amount of the bill is multiplied by the rate; if there are exemptions, they are deducted before the tax is figured. Even so, a large amount of careful checking is necessary to arrive at the correct figure The matter is rather simple in the case of dealers in only a few commodities or services With large retail establishments, however, the law must operate within a rather wide limit of tolerance

To these difficulties should be added one more, namely the hairsplitting distinctions as to what is and what is not interstate

commerce Notably in densely populated sections of the country the division between the part of a city in one state and the part in another is merely a jurisdictional line The settlement is one continuous stretch of stores and dwellings A citizen of a given state makes his purchases across the border Where does the jurisdiction of the state over the purchases of its citizens end? The settlement of these matters is often a question of fine distinctions approved, or disapproved, finally by an equally fine distinction of a court

The substance of all this is that the further a tax system departs from simplicity of administration, the more the avenues for escape, and the greater the likelihood of injustice to those citizens who do not have the same advantage of escape

Cost of Collection. The cost is commonly defined, as the ratio of governmental expense to the amount collected, which varies in the case of the sales tax from 1 61 to 4 3 per cent of the gross yield. This definition, however, overlooks the cost to the manufacturer or merchant. Tax laws which make a business concern the collection agency impose additional expense on such enterprises. It becomes necessary to keep accounts with specific reference to the tax; in the case of large business, a rather complicated system of reports is required, which in turn makes necessary additional clerical help, with the mechanical equipment that they need to keep the records; and, in many instances, legal assistance must be obtained to keep the company within the confines of the law All these are just as much items of cost as those incurred by government in performing its functions

Incidence. It is of no particular significance that the present rate of sales taxes is low — on the average not far from 2 per cent A source that offers a promise of large returns is one that will be loaded with heavy, and still heavier, taxes The gasoline tax is an illustration. Starting in its earliest history with a levy of one cent a gallon the tax has been stepped up until in some states it is now six or seven cents, and, with the addition of municipal or county taxes, the amount in some cases reaches ten or more cents.

It is implied by the term "taxes on consumption" that the levy comes to rest finally on the consumer. It is implied, also, that it was the intention of the legislature that the tax should work in this manner. If the tax is on the final consumer, it is a

deduction from his income. At least for persons of moderate means, this suggests a curtailment of purchasing power with its varying effects on local and sometimes distant markets. This raises the interesting question of the pressure of sales taxes, which will be discussed presently.

It is by no means certain, however, that the incidence is on the consumer in all cases The manner in which the tax is levied has much to do with its final resting place. When the tax is imposed at the point where goods or services pass to the final consumer, in most cases the consumer pays the whole or the largest percentage of the levy.

When the system imposes the tax on producers, the incidence may follow devious routes, in some instances with the whole burden reaching final consumers, in others with the tax diffused among the various layers of producers and distributors, the consumer receiving only part of the burden. Producers are concerned with profits When confronted with a tax situation, it is to their interest to adjust their affairs so as to prevent an impairment of their net income

There is no method, of universal applicability, for avoiding the impact of a tax. Industries are operated under different conditions, both internal, mainly the effect of changing costs, and external, including chiefly market factors. No doubt, the first impulse of manufacturers is to shunt the whole tax onto the selling price. Whether they succeed or not depends upon the effect of this shifting on the volume of sales. If the latter are not adversely affected, the tax will be moved to the next layer of producers or dealers where the experiment will be tried again. In other words, if the volume of sales does not decline, the tax will pass to the consumer, possibly with the addition of the "mark up" on the sales as they move from one stratum of distribution to the next.

No one knows in advance what will be the effect on the consumer or the price when augmented by the tax At the end of the line are the buyers of goods who exist in various stages of willingness and ability to make purchases As a group, their reactions to a tax are largely unpredictable Hence, attempts to shift the tax are largely matters of experiment until equilibria have been established under the new arrangement

It can be said with greater certainty that if consumers are unwilling or unable to take the tax when shifted to them, an

enterprise must find some other solution to its problem. If an industry operates under conditions of decreasing unit cost, a decline in sales due to the tax decreases the volume of output, and, consequently, causes an increase in unit cost. In such a situation, a producer would be willing to absorb some of the tax. He must make price adjustments offset the increase in cost due to the tax, and the increasing expense due to a rise in unit cost. All the while, there is the possibility, over the course of time, for producers to use technical improvements which will recover the profit lost by the effects of the tax. Facilities for making such changes vary from enterprise to enterprise What managers of industry would prefer is a stable tax system, or, if change is necessary, with advances in rates slow enough to give them time to make adjustments.

Other Features of Sales Taxes. In general, the funds derived through sales taxes are placed in the Treasury for general use; however, they may be earmarked for special purposes Missouri, Arkansas, and New Mexico use the funds largely for schools. During the depression following 1933, Indiana all but financed the local schools by a general sales tax levy by the state.

The administration of the sales tax is not without its problems, as for instance:

(1) What is a sale? A sale is a transfer of property (title) for a consideration, usually money. But what of conditional sales, leases, trusts, and chattel mortgages? Suppose the goods and services are sold on credit. When is the tax to be paid?

(2) What of integrated industries? Shall the sales tax apply to all transfers between the parent company and its subsidiaries, and among all the subsidiaries themselves?

(3) Suppose a citizen of one state goes over the line into another state and makes purchases for his use at home Can either state levy a sales tax against the purchase?

The consumers' disposition toward a shifted tax is also the deciding element in the case of industries under conditions of monopoly or of constant or decreasing unit cost Since the great bulk of commodities and services which are presented for consumption fall within the category of decreasing unit cost, this is the case that will largely decide how much of a tax is shifted

The Use Tax. In general, a state cannot impose any burden upon the movements of goods between or among states or with

foreign countries without violating the commerce clause of the federal Constitution. This applies to the taxation by the states of sales in interstate commerce. However, the power of the state to impose a tax on sales in interstate commerce has been broadened where the seller maintains a place of business in the taxing state.[10]

Another instance where the power of the state to impose a tax on interstate commerce has been extended is where goods have been bought outside the state but brought within its borders either for use or for storage. Such levy is known under the general term of *use tax*, which has been imposed by some twenty-one states since about 1935 The use tax is therefore largely supplementary to the state sales tax. It was first levied on gasoline although it has been extended generally to other commodities In such cases the sales tax rates of the taxing state would have to apply because of the rule of uniformity, subject to exemption for any sales tax paid in the state where the goods were purchased. It was expected that the use tax would be rejected at once by the United States Supreme Court, but it was sustained in a recent case on the ground of equality rather than of discrimination.[11] The Supreme Court held that

> 1. The tax is not upon the operation of interstate commerce, but upon the privilege of use after commerce is at an end.
>
> 2 The tax upon the use after the property is at rest is not so measured or conditioned as to hamper the transactions of interstate commerce or discriminate against them

The Pressure of Consumption Taxes. The substance of the concept of pressure is that when the shifting has come to an end, when the tax has finally come to rest on some person who cannot move it to others, it has set to work other forces which may have decided effects not only on the person upon whom the incidence rests, but generally upon the economic organization

The incidence of consumption taxes is largely on the consumer, although there are cases in which producers feel the effect, directly and indirectly Even if the total amount were paid by consumers, industries would be more or less affected What an individual must budget for taxes cannot be used for other types of expendi-

[10]See Nelson v Sears, Roebuck & Co , 61 S Ct 586 (1941), Nelson v Montgomery Ward & Co , 61 S Ct 593 (1941), McGoldreck v Berwind-White Coal Minning Co , 60 S Ct 388 (1940)

[11]Henneford v Silas Mason Co , 57 S. Ct 524 (1937) Gregg Dyeing Co v. Query, 52 S Ct 631 (1932)

ture or saving Thus the pressure may come back on industry, as well as on society in general, in the form of poorer qualities of goods and few luxury items purchased, or less money saved, or homes allowed to depreciate, or curtailed education for children, or in greater insecurity because of these things. The end result may be lower standards of life, with all this implies

Unfortunately, the forces that produce these results are incommensurate. In most instances, they operate slowly, and they are usually misinterpreted; that is to say, the causes are assigned to other than the real operating factors.

Customs Duties. Until shortly after 1900, customs duties were relatively very important sources of income for the federal government. As late as 1909, nearly 50 per cent of its total ordinary receipts was supplied by customs. World War I was mainly responsible for the great development of other sources, with the chief burden for government income falling on individual and corporate income taxes and certain levies on excess profits. To these, in war times, were added a miscellaneous assortment of excises, many of which were repealed when the war emergency had passed, only to be restored during and following the great depression of 1929-1939

Import duties have been imposed sometimes chiefly for revenue, sometimes for protection, and at other periods a mixed purpose was involved In some instances, these levies fall on raw materials and partly manufactured goods, but the main burden is on manufactured goods Notwithstanding the statement that the United States is a high protective country, a surprisingly large amount of goods is admitted without duty Since 1900 — an era of high protective tariffs — the amount admitted free has never been less than 43 per cent; the annual average for the five years ending 1920 was 67.3 per cent, and for the five years ending 1935, it was 62.4 per cent. This suggests that the consumer's burden, so far as it is directly due to the duty, is relatively light

Burden of Customs Duties. At one time in the history of this country an argument prevailed that a tariff made foreign exporters contribute to the support of the United States Government, in short, it was claimed that the foreigner absorbed the tax in advance. This argument assumed that the exporter was faced with the condition that the American consumer, instead of buying

the foreign article at the advanced price caused by the tariff, either stopped his purchases of foreign articles, or took American goods instead; hence, the exporter was forced either to assume the burden or lose the trade. That, of course, depends on many conditions With quality commodities, for example, the duty may be entirely shifted to American consumers; but for those of more or less general consumption, the duty may be only partly shifted, if at all, depending on its effect on the price to the consumer and the availability of substitute American articles. In the case of a necessity like sugar, of which the domestic supply falls far below the domestic demand, the burden largely passes to the consumer. In 1912, for example, it was estimated by the United States Tariff Commission that the American people paid into the American Sugar Refining Combination over $112,000,000 because of the tariff. In the case of industrial raw material, such as steel, or steel alloyed with such materials as tungsten, nickel, molybdenum, the shift, if it takes place at all, is by slow and roundabout methods

The main burden of the tariff lies in other directions. For one thing, it denies American consumers the opportunity of buying in the cheapest world markets. In this respect, the price of protected goods is higher than under free trade because such articles must be supplied in whole or in part from domestic sources, whether from forests, fields, and mines, or from manufacturing plants In such cases, domestic cost is higher than that abroad, otherwise there would be no need of protection. This statement suggests all the arguments connected with the law of comparative cost.

In this connection it has been argued that a tariff is a costly way, for the consuming public, of raising revenue because it makes the consumer pay, in the form of an advanced price, much larger sums than the government receives as revenue. It has been claimed that customs income is derived only from the imported supply, but the tariff causes a rise of price not only of imported but of domestic goods of similar kinds.

Tariff administration involves many details which are more or less bothersome to the commercial importer. Consider only one instance: the rules for valuation change from time to time The following is a sample from the Tariff Act of 1922 "For the purpose of this act the value of imported merchandise shall be·

(1) The foreign value or the export value, whichever is higher;

(2) If neither the foreign value nor the export value can be ascertained to the satisfaction of the appraising officers, then the United States value;

(3) If neither the foreign value, the export value, nor the United States value can be ascertained to the satisfaction of the appraising officers, then the cost of production;

(4) If there is any similar competitive article manufactured or produced in the United States of a class or kind upon which the President has made public a finding . . . then the American selling price of such article," and so on.

The "foreign value" of the imported article was defined as "the value or the price, at the time of exportation of such merchandise to the United States, at which such or similar merchandise is freely offered for sale to all purchasers in the principal markets of the country from which exported, in the usual wholesale quantities and in the ordinary course of trade"

In addition to regulations with respect to valuation, the tariff laws contain administrative features covering forms of documents, delivery and transport in bond, drawbacks, cost of containers, appraisals, re-appraisals and appeal, and conversion of foreign currencies

Concerning the "flexible tariff provision" of the Tariff Act of 1922,[12] the court held that Congress had described its plan "to secure by law the imposition of customs duties on articles of imported merchandise which should equal the difference between the cost of producing in a foreign country the articles in question and laying them down for sale in the United States and the cost of producing and selling like or similar articles in the United States"[13]

Tariff as a Revenue Producer. The purpose of the tariff may be to produce revenue or to provide a means of protection There is an inevitable conflict between these two purposes. To the extent that it is truly protective, it cannot be a large revenue producer Protection tends to restrict imports, and hence to dry up the sources from which income flows. Thus, it happens that if the purpose is protection, the selected list will contain those

[12]Act of September 21, 1922, c 356, title 3, par 315, 42 Stat 858, 941 (19 U S.C A. par. 154 *et seq*)

[13]Hampton, Jr and Company v United States, 276 U S. 394, 48 S Ct 348 (1928)

articles which need defense against foreign competition. On the other hand, if revenue is the goal, the taxed items will be those which promise the largest net income — usually articles of general consumption or luxury articles, the consumption of which is not seriously affected by an advance of price caused by the impost. It has been stated by the Treasury of Great Britain that if a tariff were levied to secure the maximum net revenue not more than a dozen items would be selected

The following table gives the customs receipts and the percentages to the total income of the federal government for various years since 1791.[14]

CUSTOM RECEIPTS FOR VARIOUS YEARS, 1791 TO 1948

YEAR	TOTAL RECEIPTS IN MILLIONS	CUSTOMS RECEIPTS IN MILLIONS	PERCENTAGE OF ORDINARY REVENUE
1791	$ 4 418	$ 4 399	91 0
1802	14 995	12 438	83 0
1817	33 099	26 283	80 0
1839	31 482	23 137	70 0
1859	53 486	49 565	92 0
1879	273 827	137 250	51 0
1899	515 960	206 128	40 0
1919	5,152 257	184 457	3 0
1929	4,033 250	602 262	14 0
1937	5,028 840	486 356	9 0
1941	7,607 211	391 870	5 0
1948	4,221 077	421 723	8 0

The above table shows that the tariff as a revenue producer is extremely variable. During the last few years it shows very little elasticity This low percentage of receipts during the last few years is not necessarily indicative of its degree of protection; rather it is due to the shift of the federal government to other sources of income In some years, as in 1919, the tariff produced only about 3 per cent of the total federal receipts; in 1941, 5 per cent, and in 1948, 8 per cent, or $421,723,028

Summary. A tax on the value of property in possession and a tax on its sale or transfer of title by contract must be distinguished

[14] Report of Secretary of The Treasury for Fiscal Year Ended June 30, 1941, page 412. The data for 1948 were obtained from the 1950 federal budget, page A-13 The percentages were calculated

The former is a property tax; the latter is an excise and is considered in this chapter. Both forms of levies have been used for a long time by all grades of government At first, the tax on sale, or transfer of title, was merely supplementary to that on value, during an emergency. But like many other sources of income, sales taxes have now become integrated in the tax system as a permanent part of government revenue. The base has gradually been broadened until it includes, directly or indirectly, all goods and services. The tax, when placed upon the manufacturer, wholesaler, or retailer, is regarded as a cost and in so far as possible, is passed on to the purchaser, ultimately remaining with the consumer. The extent of shifting depends upon the unit costs and other conditions of production.

The sales tax is usually a flat rate, but it may be made progressive and bracketed When it is a flat rate it is regressive in that it bears heaviest on the small income group. It does not accord with ability to pay because the rich and poor are taxed on their purchases at the same rate. But the tax has many merits It is very elastic It may be made to yield great amounts of revenue during depressions During periods of prosperity, its burden is light to negligible It is for these reasons that the sales taxes are likely to remain a permanent part of the fiscal system

Customs duties and excises are closely related; one is on goods as they cross a boundry, the other on their production within the country As a general rule, each is shifted through higher price on to the consumer Each is defined as an indirect tax, being a tax upon transfer or use, and therefore need only be uniform throughout the United States when levied by the federal government

The tariff history of the United States is long and involved, sometimes dominated by the principles of free trade, sometimes by protection, but always with its political aspects. The more a duty on imports becomes protective, the less productive of revenue it is.

With one exception, the federal government alone can levy import duties At first, in 1789, the federal government levied import duties for revenue only. But as the idea of protection to the infant industries, wage system, and standard of living in this country became important, the tariff rates were increased to the point of exclusion in some cases. The tariff duty is almost entirely shifted onto the consumer in higher prices.

TEXT QUESTIONS

1. Explain the difference between sumptuary and other consumption taxes.
2. Compare direct and indirect taxes.
3. List the various taxes on liquor. Why are states too permitted to tax liquor?
4. What severance taxes are or have been imposed by the federal government?
5. How do tobacco taxes compare with other taxes? What forms of this product come under the tax regulations?
6. On what transactions are federal stamp taxes imposed? How do costs of administering these taxes compare with the net returns and why?
7. How does the present status of the motor vehicle tax compare with the early program?
8. What are the various taxes that come under this category?
9. Name the special characteristics of a sales tax.
10. Explain how it is administered
11. Under what conditions is a producer likely to assume a considerable proportion of a tax?
12. What are some of the problems of a sales tax?
13. Does a use tax violate the federal law on taxation? Why?
14. How does the pressure of consumption taxes affect the economic life of a community?
15. Compare the present place of customs duties in the tax structure with its position in the 19th century.
16. Where does the main burden of the tariff fall?
17. Why is the tariff such a controversial question in a country's financial or political picture?
18. Summarize the difference between property tax and excise tax
19. When is a state permitted to impose a tariff?

APPLICATION PROBLEMS

1. Would you advise the use of consumption taxes, such as sales and excises, as part of the compensatory tax policy to control or minimize the cyclical fluctuations? Among other things, you will probably want to determine the degree of correlation between yield and the cyclical changes of the business cycle.
2. The American Municipal Association makes the following statement in regard to Motors User Revenue: "Revenues from motor vehicle users should be applied to construction and maintenance of a safe, integrated and adequate street and highway system whether the money be spent directly by the states, the municipalities, or other units of governments The motor user revenues, gasoline tax and license fees, should be more nearly applied on the basis of highway use The fiscal problems of the cities will be acute as long as heavy local property taxes are required for street and highway construction and maintenance and more

particularly for arterial highways." Comment on this statement as a sound fiscal policy.

3. Make practical application of the principles announced in the following court decisions
   a. Vaughan v State, 272 N. Y. 102 (1936)
   b. Stewart Dry Good Co. v. Lewis, 294 U. S. 550 (1935)

RESEARCH TOPICS

1. In order to avoid a deficit, and hence borrowing, your city councilmen propose to impose a tax on personal and corporate incomes, or a three per cent tax on retail sales. As a tax expert, you are asked to give this body a written opinion and report in regard to the fiscal soundness of these two proposals. You are also asked to make other suggestions as to methods of increasing the revenue of your city Taking all the facts into consideration, prepare such report.
2. Make a careful study of the sales tax as it applies to your state. If your state does not collect such tax, then study the tax as it is used in another state. Is it a general sales tax, or does it apply only to certain transactions? What are the exemptions, if any? Consider such other characteristics as elasticity, annual yield, costs of collection and equity.
3. What excise taxes do your state and local units collect? Why do you label them excise taxes and not property taxes? Constitutionally, what is the difference between federal excises and state excises?

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